

U.S. DEPARTMENT OF  
HEALTH AND HUMAN SERVICES

# Manual for Performance Measurement & Improvement



U.S. DEPARTMENT OF  
HEALTH AND HUMAN SERVICES

# Manual for Performance Measurement & Improvement

Supplement for Acquisition

May 2004

Prepared by IM for HHS

# Introduction

---

This document—a supplement to DHHS’s *Manual for Performance Measurement and Improvement*—contains materials specific to the Balanced Scorecard process for acquisition.<sup>1</sup> Those materials are as follows:

- ◆ Four Balanced Scorecard survey instruments, each designed to elicit information pertinent to a particular group: employees, internal customers (primarily project officers), vendors, and managers
- ◆ Standard survey communications, designed to provide potential survey respondents with information about the survey process and instructions for completing the survey
- ◆ Table showing the linkage of acquisition survey data to the four Balanced Scorecard perspectives
- ◆ Vulnerability indicators and index for acquisition.

## SURVEY INSTRUMENTS

The survey instruments are designed to be used via the Internet. The front page of the survey instruments should be customized with the sponsoring OPDIV’s logo and the DHHS logo, as indicated. Also, other brackets are included within the text to indicate where the OPDIV name and the point-of-contact information should be inserted. DHHS does not permit altering or deleting any survey questions. However, OPDIVs may add questions to the surveys to meet additional needs.

If paper surveys are needed, they can be copied from this supplement or printed from the web page. (Additional information on paper surveys is in Appendix A of *Manual for Performance Measurement and Improvement*) When using paper surveys, provide these additional instructions to participants:

*Because you do not have access to the Internet to participate in this survey, please use this paper copy. Where it indicates to select your answer, please circle the desired response category. When completed, please return the survey in the envelope provided.*

---

<sup>1</sup> The Balanced Scorecard process for acquisition should be repeated every 24 months. This allows enough time for improvements to be implemented and for employees, customers, and vendors to recognize those improvements before the next survey cycle begins.

---

## SURVEY COMMUNICATIONS

The survey communications include five messages each for employees, internal customers, and vendors. The survey communications are designed for distribution electronically by e-mail according to the schedule provided in the reference manual. The messages should be customized, where indicated, with the division name (if applicable), OPDIV, point of contact, and signatory. You may have to further customize them to some extent for a particular function or office. For example, if there is potential confusion between offices or functions, you should explain in the communication which one is the intended subject of the survey.

Almost all acquisition surveys will be conducted on the Internet. However, if the survey will be conducted on paper through the mail, different messages should be used. Please refer to *Performance Measurement and Improvement Supplement for Grants Management* for examples of appropriate paper/mail communications.

## DATA LINKS TO THE BALANCED SCORECARD

This section of the supplement links the survey data to the four Balanced Scorecard perspectives: financial, internal business processes, customer, and learning and growth. The template designed for analyzing the survey data includes a report function for generating the scores for the four different perspectives. These scores are used in the report for DHHS.

## VULNERABILITY INDICATORS AND INDEX

This section lists the vulnerability indicators—both vulnerability critical indicators and other indicators—and their related scores that are considered to be the most important indication of potential risk for acquisition integrity and regulatory compliance problems, critical in determining acquisition performance. The report function of the template designed for the survey process automatically generates the scores for the most critical indicators and other indicators. These scores are used in the report to DHHS.

## Acquisition Balanced Scorecard Survey: Employees

[OPDIV] is conducting this survey to assess the overall performance of its Procurement Office and to better meet employee needs. For purposes of this survey, acquisition employees cover both federal and contract employees. We need your input to help make this assessment. Note that the survey will not be used for individual employee performance evaluations.

Please answer this survey based on the performance of your Procurement Office during the past 12 months. If you wish to comment on any aspect of the acquisition process or to qualify your answer to any question, please use the Comments section at the end of the survey.

If you have questions about the survey or need technical assistance, please contact [Name] on [Telephone] or [e-mail].

Your cooperation is appreciated.



Insert OPDIV Logo Here

## OVERALL

**Q-1** To what extent do you agree or disagree that the overall quality of your work life is excellent?

Select **one** answer.

1. Strongly Agree
2. Agree
3. Sometimes Agree, Sometimes Disagree
4. Disagree
5. Strongly Disagree

## POLICIES AND PROCEDURES

**Q-2** To what extent do you agree or disagree with the following statements concerning policies and procedures?

Select **one** answer for each policies/procedures statement.

Policies/Procedures Statement	Strongly Agree	Agree	Sometimes Agree, Sometimes Disagree	Disagree	Strongly Disagree
Procurement policy issues are adequately communicated to me	1	2	3	4	5
My procurement office displays a professional attitude and accompanying behavior	1	2	3	4	5
My procurement office has clear written goals	1	2	3	4	5
My procurement office adds value in accomplishing the agency mission	1	2	3	4	5
My supervisors properly balance program office needs and taxpayer interests	1	2	3	4	5
Procurement operations are conducted impartially	1	2	3	4	5

## PROCESS IMPROVEMENT

**Q-3** To what extent do you agree or disagree that process improvement is implemented in the following areas?

Select **one** answer for each area of process improvement.

Process Improvement	Strongly Agree	Agree	Sometimes Agree, Sometimes Disagree	Disagree	Strongly Disagree
My supervisors seek continuous improvement in my performance	1	2	3	4	5
My supervisors measure my performance against goals and objectives	1	2	3	4	5
I respect the leadership abilities of my immediate supervisor	1	2	3	4	5
I respect the leadership abilities of management above my immediate supervisor	1	2	3	4	5
Supervisory personnel emphasize quality in our work products	1	2	3	4	5
My supervisors are acquisition professionals	1	2	3	4	5
I would recommend my procurement office as a place of employment	1	2	3	4	5

## PARTNERSHIP RELATIONSHIPS

**Q-4** To what extent do you agree or disagree that you and your project officers perform the following functions of partnership well?

Select **one** answer for each partnership function

Partnership	Strongly Agree	Agree	Sometimes Agree, Sometimes Disagree	Disagree	Strongly Disagree
My project officers encourage my participation early in the project planning process	1	2	3	4	5
My project officers and I clearly define and understand the roles and responsibilities within the acquisition process	1	2	3	4	5
My project officers and I work together closely throughout the acquisition process	1	2	3	4	5
Customers treat me with respect	1	2	3	4	5
Customers respect my contracting expertise	1	2	3	4	5
Customers know about the products/services procured	1	2	3	4	5
Customers provide complete SOWs and evaluation criteria as part of the initial acquisition package	1	2	3	4	5
Customers furnish realistic independent government cost estimates	1	2	3	4	5
Customers provide meaningful support in the negotiation process	1	2	3	4	5
Customers prevent delays in product/service delivery	1	2	3	4	5
Customers monitor contractor performance carefully	1	2	3	4	5
Customers review invoices on a timely basis	1	2	3	4	5
Customers evaluate proposals impartially	1	2	3	4	5
Customers provide generally satisfactory performance	1	2	3	4	5



## WORK ENVIRONMENT

**Q-5** To what extent do you agree or disagree that your branch/division/office provides a good environment for the following aspects of procurement work?

Select **one** answer for each aspect of work environment.

Aspect of Work Environment	Strongly Agree	Agree	Sometimes Agree, Sometimes Disagree	Disagree	Strongly Disagree
Team contributions are recognized	1	2	3	4	5
Individual contributions are recognized	1	2	3	4	5
My work schedule is flexible	1	2	3	4	5
Workload is distributed fairly	1	2	3	4	5
My immediate supervisor's communications are candid and timely	1	2	3	4	5
Supervisors solicit my opinions and ideas regularly	1	2	3	4	5
People work together effectively on teams and help each other to get the job done	1	2	3	4	5
Work units within the office communicate well with one another	1	2	3	4	5
Physical working conditions are acceptable	1	2	3	4	5
Tools are furnished as needed (e.g., specialized software)	1	2	3	4	5

## WORKFORCE DEVELOPMENT/TRAINING

**Q-6** To what extent do you agree or disagree that your branch/division/office provides the following aspects of workforce development and training?

Select **one** answer for each aspect of workforce development/training.

Workforce Development/Training	Strongly Agree	Agree	Sometimes Agree, Sometimes Disagree	Disagree	Strongly Disagree
I receive training to perform my job efficiently and effectively	1	2	3	4	5
I am given discretion to make appropriate decisions	1	2	3	4	5
Acquisition System training is accompanied by useful instruction and guidance on how to apply it	1	2	3	4	5
Our Acquisition System is designed, integrated, and administered in a way that helps me perform my job tasks efficiently and effectively	1	2	3	4	5
I receive adequate support (e.g., coaching, mentoring, varied and meaningful work) for career development and progression	1	2	3	4	5

## SMALL BUSINESS

**Q-7** To what extent have you received support from your Small Business Specialist within the past 6 months (e.g., with acquisition strategy)?

Select **one** answer.

1. Always
2. Usually
3. Sometimes, Sometimes Not
4. Not Usually
5. I Have Had No Dealings with My Small Business Specialist Within Past 6 Months

**Q-8** To what extent do you need a better understanding of the following Small Business issues?

Select **one** answer for each program or issue.

	No Additional Understanding Needed	Some Additional Understanding Needed	Much More Understanding Needed
Small Business	1	2	3
8(a)	1	2	3
Small Disadvantaged Business	1	2	3
Women-Owned Business	1	2	3
HUB Zone Business	1	2	3
Veteran-Owned Business	1	2	3
Service-Disabled Veteran Owned Business	1	2	3
Small Business Sub-contracting	1	2	3
Contract Bundling	1	2	3

**Q-9** Do you know the order of priority or precedence among the Small Business Programs?

Select **one** answer.

1. Yes
2. No
3. Unsure

**Q-10** To what extent are you aware of the established goals for the Small Business Programs at HHS?

Select **one** answer.

1. Aware of All Goals
2. Aware of Some Goals
3. Aware of None of the Goals

**Q-11** Does your employee appraisal/performance contract cover meeting or exceeding Small Business goals?

Select **one** answer.

1. Yes
2. No
3. Unsure

**Q-12** To what extent is the Small Business Specialist included in your advance Acquisition Planning?

Select **one** answer.

1. Always
2. Sometimes
3. Never

**Q-13** If you could make changes in Small Business services, which of the following would you select?

Select **two (2)** answers.

1. Better Instruction and Policy Guidance
2. Better Training of Small Business Specialists
3. More Topical Training Seminars Conducted by Small Business Specialists
4. Better Communication with Small Business Specialists

## GOVERNMENT PROPERTY/LOGISTICS

**Q-14** To what extent do you agree or disagree that logistics personnel (e.g., Property Administrators, Plant Clearance Officers, and Logistics Management Specialists) perform well in the following areas?

Select **one** answer for each area.

	Strongly Agree	Agree	Sometimes Agree, Sometimes Disagree	Disagree	Strongly Disagree	Not Applicable
Monitor the performance of contractors providing logistics support (i.e., for Property, Supply or Transportation requirements)	1	2	3	4	5	6
Provide appropriate government-furnished property to permit timely and satisfactory contract performance	1	2	3	4	5	6
Help to resolve any logistics issues arising under my contracts	1	2	3	4	5	6
Make web-based logistics training and knowledge repositories available to me	1	2	3	4	5	6
Help me make decisions on whether to use existing inventory rather than procure new goods	1	2	3	4	5	6
Contribute to strategic planning and life-cycle costing for major capital assets under my contracts (e.g., warehouse, facilities, information technology, biomedical supplies)	1	2	3	4	5	6
Support the use, management, accounting, and disposal of major capital assets under my contracts	1	2	3	4	5	6

## PRIORITIES FOR IMPROVEMENT

**Q-15** If you could make changes in your office, which of the following would you select?

Select **three (3)** answers.

1. More Contracting Staff
2. Improved Use of Technology
3. More Efficient Work Processes
4. Additional Business Discretion Given to Employees
5. Improved Cooperation with Program Offices
6. Improved Cooperation with Small Business Specialists
7. Improved Cooperation with Logistics Specialists
8. Streamlined Policies and Procedures
9. Consistent Use of Advance Acquisition Planning
10. Adherence to Published Acquisition Cut-Off Dates
11. More Training and Development for Contracting Staff
12. Better Project Officer Knowledge of the Marketplace
13. Involvement Earlier in the Acquisition Process
14. Better Project Officer Knowledge of Business Matters
15. Other (Please Specify) \_\_\_\_\_

## BACKGROUND

**Q-16** Are you a federal employee or contract employee?

Select **one** answer.

1. Federal Employee
2. Contract Employee

**Q-17** Which of the following job categories best describes your current procurement function?

Select **one** answer.

1. Contract Specialist – Primarily Contracts
2. Contract Specialist – Primarily Simplified Acquisitions
3. Contracting Officer
4. Procurement Analyst
5. Cost/Price Analyst
6. Contract Administrator
7. Supervisor/Manager
8. Clerical/Administrative
9. Other (Please specify other) \_\_\_\_\_

**Q-18** How long have you held this position with your current procurement office?

Select **one** answer.

1. Less than 1 Year
2. 1 to 3 Years
3. 4 to 6 Years
4. 7 to 9 Years
5. More than 9 Years

**Q-19** How long have you been in the acquisition profession?

Select **one** answer.

1. Less than 3 Years
2. 3 to 6 Years
3. 7 to 10 Years
4. 11 to 14 Years
5. More than 14 years

## **COMMENTS**

Please click in the space below if you want to provide comments. Use this space to suggest specific changes that would improve the acquisition process, or to elaborate on your answers to the previous questions. Note: If you responded to any question with "Strongly Disagree," the applicable question is provided below, as a reminder, should you wish to provide additional detail.

## Acquisition Balanced Scorecard Survey: Internal Customers

[OPDIV] is conducting this survey to assess the overall performance of its Procurement Office and to better meet customer needs. We need your input to help provide the best acquisition services. Note that this survey will not be used for individual employee performance evaluations.

Please answer this survey based on the performance of your Procurement Office during the past 12 months. If you wish to comment on any aspect of the acquisition process or to qualify your answer to any question, please use the Comments section at the end of the survey.

If you have questions about the survey or need technical assistance, please contact [Name] on [Telephone] or [e-mail].

Your cooperation is appreciated.

Insert OPDIV Logo Here





## OVERALL

**Q-1** To what extent do you agree or disagree that the overall performance of the procurement office is excellent?

Select **one** answer.

1. Strongly Agree
2. Agree
3. Sometimes Agree, Sometimes Disagree
4. Disagree
5. Strongly Disagree

## SIMPLIFIED ACQUISITION PROCEDURES

**Q-2** In the past fiscal year, has your procurement office used simplified acquisition procedures to meet your project requirements?

For purposes of this survey, simplified methods include Contracting Office Purchase Cards (credit cards), commercial purchases of less than \$5 million, and Delivery Orders against established contracts made by the simplified procedures group.

1. Yes (continue to Q-3)
2. No, Only Large (Skip to Q-4)
3. Do Not Know (Skip to Q-4)

Answer this section only for those purchases made via simplified methods.

**Q-3** To what extent do you agree or disagree that the performance of the procurement office is excellent using simplified methods in the following areas?

Select **one** answer for each area.

Simplified Methods	Strongly Agree	Agree	Sometimes Agree, Sometimes Disagree	Disagree	Strongly Disagree
Provides excellent overall performance using simplified methods	1	2	3	4	5
Deals with me in a courteous and business-like manner	1	2	3	4	5
Explains project/procurement office roles and responsibilities	1	2	3	4	5
Obtains products/services when I need them	1	2	3	4	5
Plans effectively for timely delivery	1	2	3	4	5
Provides consistent guidance regardless of whom I talk to	1	2	3	4	5

## LARGE PURCHASES

**Q-4** In the past fiscal year, has your procurement office used regular contracting methods for purchases above \$100,000 (or \$250,000 for counter terrorism/biological/chemical) to meet project requirements?

Such large purchases include contract awards after negotiation or after sealed bidding or delivery orders against established contracts made by the large purchases group.

1. Yes (Continue to Q-5)
2. No (Skip to Q-11 Small Business)
3. Do Not Know (Skip to Q-11 Small Business)

## OVERALL (ALL PHASES)

**Q-5** To what extent do you agree or disagree that the procurement office's overall performance using regular contracting methods is excellent?

Select **one** answer.

1. Strongly Agree
2. Agree
3. Sometimes Agree, Sometimes Disagree
4. Disagree
5. Strongly Disagree

## PLANNING PHASE

**Q-6** To what extent do you agree or disagree that the procurement office performs the following planning functions well?

Select **one** answer for each planning function.

Planning Function	Strongly Agree	Agree	Sometimes Agree, Sometimes Disagree	Disagree	Strongly Disagree
Works with me to develop acquisition strategies early	1	2	3	4	5
Explains project/procurement office roles and responsibilities	1	2	3	4	5
Plans effectively for timely delivery	1	2	3	4	5

## PRE-AWARD PHASE

**Q-7** To what extent do you agree or disagree that the procurement office performs the following pre-award activities well?

Select **one** answer for each pre-award activity.

Pre-award Activity	Strongly Agree	Agree	Sometimes Agree, Sometimes Disagree	Disagree	Strongly Disagree
Meets critical milestones in the acquisition process	1	2	3	4	5
Suggests ways to strengthen my statements of work	1	2	3	4	5
Has adequate knowledge of products/services being procured	1	2	3	4	5
Understands the marketplace for products/services being procured	1	2	3	4	5
Informs me of current status of procurements	1	2	3	4	5

## AWARD PHASE

**Q-8** To what extent do you agree or disagree that the procurement office performs the following award functions well?

Select **one** answer for each award function.

Award Function	Strongly Agree	Agree	Sometimes Agree, Sometimes Disagree	Disagree	Strongly Disagree
Meets projected contract award dates	1	2	3	4	5
Select vendors with best value (quality and price)	1	2	3	4	5
Conducts procurements impartially	1	2	3	4	5

## POST-AWARD PHASE

**Q-9** To what extent do you agree or disagree that the procurement office performs the following post-award functions well?

Select **one** answer for each post-award function.

Post-award Function	Strongly Agree	Agree	Sometimes Agree, Sometimes Disagree	Disagree	Strongly Disagree
Works with me on contract monitoring strategy soon after contract award	1	2	3	4	5
Works closely with me to monitor contractor's performance	1	2	3	4	5
Prevents problems that may lead to delivery delays	1	2	3	4	5
Obtains product/services when I need them	1	2		4	5
Obtains high-quality products/services	1	2	3	4	5

## SERVICE/PARTNERSHIP

**Q-10** To what extent do you agree or disagree that the procurement office performs the following aspects of service/partnership well?

Select **one** answer for each aspect of service/partnership.

Service/Partnership	Strongly Agree	Agree	Sometimes Agree, Sometimes Disagree	Disagree	Strongly Disagree
Deals with me in a courteous and business-like manner	1	2	3	4	5
Respects my technical expertise	1	2	3	4	5
Communicates well with me	1	2	3	4	5
Supports my organization's mission	1	2	3	4	5
Helps me to solve problems quickly and effectively	1	2	3	4	5
Shows flexibility in meeting my specific needs	1	2	3	4	5
Returns my calls and/or e-mails in a timely manner	1	2	3	4	5
Provides consistent guidance regardless of whom I talk to	1	2	3	4	5
Provides excellent services overall	1	2	3	4	5

## SMALL BUSINESS

**Q-11** To what extent have you received support from your Small Business Specialist within the past 6 months (e.g., with acquisition strategy)?

Select **one** answer.

1. Always
2. Usually
3. Sometimes, Sometimes Not
4. Not Usually
5. I Have Had No Dealings with My Small Business Specialist Within Past 6 Months

**Q-12** To what extent do you need a better understanding of the following Small Business issues?

Select **one** answer for each program or issue.

	No Additional Understanding Needed	Some Additional Understanding Needed	Much More Understanding Needed
Small Business	1	2	3
8(a)	1	2	3
Small Disadvantaged Business	1	2	3
Women-Owned Business	1	2	3
HUB Zone Business	1	2	3
Veteran-Owned Business	1	2	3
Service-Disabled Veteran Owned Business	1	2	3
Small Business Sub-contracting	1	2	3
Contract Bundling	1	2	3

**Q-13** Do you know the order of priority or precedence among the Small Business Programs?

Select **one** answer.

1. Yes
2. No
3. Unsure

**Q-14** To what extent are you aware of the established goals for the Small Business Programs at HHS?

Select **one** answer.

1. Aware of All Goals
2. Aware of Some Goals
3. Aware of None of the Goals

**Q-15** Does your employee appraisal/performance contract cover meeting or exceeding Small Business goals?

Select **one** answer.

1. Yes
2. No
3. Unsure

**Q-16** To what extent is the Small Business Specialist included in your advance Acquisition Planning?

Select **one** answer.

1. Always
2. Sometimes
3. Never

**Q-17** If you could make changes in Small Business services, which of the following would you select?

Select **two (2)** answers.

1. Better Instruction and Policy Guidance
2. Better Training of Small Business Specialists
3. More Topical Training Seminars Conducted by Small Business Specialists
4. Better Communication with Small Business Specialists

## GOVERNMENT PROPERTY/LOGISTICS

**Q-18** To what extent do you agree or disagree that logistics personnel (e.g., Property Administrators, Plant Clearance Officers, and Logistics Management Specialists) perform well in the following areas?

Select **one** answer for each area.

	Strongly Agree	Agree	Sometimes Agree, Sometimes Disagree	Disagree	Strongly Disagree	Not Applicable
Monitor the performance of contractors providing logistics support (i.e., for Property, Supply or Transportation requirements)	1	2	3	4	5	6
Provide appropriate government-furnished property to permit timely and satisfactory contract performance	1	2	3	4	5	6
Help to resolve any logistics issues arising under my contracts	1	2	3	4	5	6

	Strongly Agree	Agree	Sometimes Agree, Sometimes Disagree	Disagree	Strongly Disagree	Not Applicable
Make web-based logistics training and knowledge repositories available to me	1	2	3	4	5	6
Help me make decisions on whether to use existing inventory rather than procure new goods	1	2	3	4	5	6
Contribute to strategic planning and life-cycle costing for major capital assets under my contracts (e.g., warehouses, facilities, information technology, biomedical supplies)	1	2	3	4	5	6
Support the use, management, accounting, and disposal of major capital assets under my contracts	1	2	3	4	5	6

## TRAINING

Many Project Officers have had acquisition training (e.g., training to understand their roles and responsibilities in the acquisition process). Some training is formal and some is informal. Some training is delivered by HHS and some by other Federal agencies. Some training is delivered by commercial or non-profit firms, and some by educational institutions. Please take into account all forms of training when answering the following questions.

**Q-19** To what extent do you agree or disagree that the procurement office encourages you to get the necessary acquisition training?

Select **one** answer.

1. Strongly Agree
2. Agree
3. Sometimes Agree, Sometimes Disagree
4. Disagree
5. Strongly Disagree

**Q-20** Have you received any training on your role in the acquisition process (e.g., Basic Project Officer course)?

Select **one** answer.

1. Yes
2. No (Skip to Q-23 Priorities for Improvement)



**Q-21** To what extent do you agree or disagree that the acquisition training you receive helps you to perform your job better and achieve program goals?

Select **one** answer.

1. Strongly Agree
2. Agree
3. Sometimes Agree, Sometimes Disagree
4. Disagree
5. Strongly Disagree

**Q-22** Do you prefer web-based training, classroom training, or some combination of the two?

Select **one** answer.

1. Web-based Training
2. Classroom Training
3. Combination Web-based and Classroom Training

## **PRIORITIES FOR IMPROVEMENT**

**Q-23** If you could make changes in your acquisition process, which of the following would you select?

Select **three (3)** answers.

1. More Contracting Staff
2. Improved Use of Technology
3. More Efficient Work Processes
4. Improved Partnerships with My Office
5. Streamlined Policies and Procedures
6. Involvement of the Contracting Staff Earlier in the Acquisition Process
7. More Training and Development for Contracting Staff
8. Better Contracting Staff Knowledge of Marketplace for Products/Services
9. Better Contracting Staff Knowledge of Business Matters
10. More Training for Project Officers
11. Other (please specify) \_\_\_\_\_

## **BACKGROUND**

**Q-24** How frequently, on average, have you had contact with the procurement office during the past fiscal year?

Select **one** answer.

1. Annually
2. Quarterly
3. Monthly
4. Weekly
5. Daily

**Q-25** In the past fiscal year, how frequently, on average, were the services and goods that you requested for your project(s) within the following value ranges?

Select the **best** answer for each value.

	Several Times a Month	Once a Month	Once Every 3 Months	Once Every 6 Months	Once a Year	Less Than Once a Year	Never
\$0 to \$2,500	1	2	3	4	5	6	7
\$2,501 to \$100,000	1	2	3	4	5	6	7
\$100,001 to \$1,000,000	1	2	3	4	5	6	7
Over \$1,000,000	1	2	3	4	5	6	7

**Q-26** In the past fiscal year, which of the following methods were used to purchase the services and goods that you need for your projects?

Select **all** methods that apply.

1. Purchase card (credit card)
2. Other simplified purchase methods, such as micro-purchases up to \$2,500 (\$15,000 for counter terrorism/biological/chemical attack)
3. Purchase orders up to \$100,000 (\$250,000 for counter terrorism/biological/chemical attack)
4. Commercial purchase orders up to \$5 million (\$10 million for counter terrorism/biological/chemical attack)
5. Unpriced purchase orders
6. BPAs (blanket purchase agreements)
7. Invoice-Voucher SF 44 purchase orders
8. Imprest funds/third-party drafts (agency bank draft)
9. Delivery orders against established contacts (handled by the Simplified Procedures group)
10. Delivery orders against established contacts (handled by the Large Purchase group)
11. Contracts awarded after negotiation or sealed bidding

## COMMENTS

Please click in the space below if you would like to provide comments. Use this space to suggest specific changes that would improve the acquisition process, or to elaborate on your answers to the previous questions. Note: If you responded to any question with "Strongly Disagree," the applicable question is provided below, as a reminder, should you wish to provide additional detail.

## Acquisition Balanced Scorecard Survey: Vendors

[OPDIV] is conducting this survey to gauge the performance of its acquisition function and to make improvements, as necessary. We need your input to help strengthen our partnerships with the vendor/supplier community.

This survey is being sent to all [OPDIV] vendors/suppliers. Please answer this survey based on your experience with the Contracting Offices and Program Offices of the [OPDIV] during the past 12 months. If you have done business with several contracting and program offices during that time, please answer based on your experiences with the offices with which you interact most frequently. If you wish, you may use the Comments section to further elaborate on any answer.

Your response will have no impact on eligibility for or receipt of future contracts or funding.

If you have questions about the survey or need technical assistance, please contact [Name] on [Telephone] or [e-mail].

Your cooperation is appreciated.

*According to the Paperwork Reduction Act of 1995, a Federal agency may not conduct or sponsor, and a person is not required to respond to, a collection of information unless it displays a valid OMB control number. The valid OMB control number for this voluntary survey is: OMB No. [ ]/Expiration Date: [ / / ]. Public reporting burden for this collection of information is estimated to vary from 10 to 20 minutes with an average of 15 minutes per completed survey, including time for reviewing instructions, gathering and maintaining necessary data, and completing and reviewing the collection of information.*

Insert OPDIV Logo Here



## OVERALL

**Q-1** To what extent are you satisfied or dissatisfied with the overall performance of the **Contracting Office**?

Select **one** answer.

1. Very Satisfied
2. Satisfied
3. Somewhat Satisfied and Somewhat Dissatisfied
4. Dissatisfied
5. Very Dissatisfied

**Q-2** To what extent are you satisfied or dissatisfied with the overall performance of the **Program Office**?

Select **one** answer.

1. Very Satisfied
2. Satisfied
3. Somewhat Satisfied and Somewhat Dissatisfied
4. Dissatisfied
5. Very Dissatisfied

**Q-3** To what extent are you satisfied or dissatisfied with how well the different roles and responsibilities of the contracting officer and the project officer are explained to you?

Select **one** answer.

1. Very Satisfied
2. Satisfied
3. Somewhat Satisfied and Somewhat Dissatisfied
4. Dissatisfied
5. Very Dissatisfied

## CUSTOMER SERVICE/COOPERATION

**Q-4** To what extent do you agree or disagree that the **Contracting Office** provides customer service/cooperation in the following areas?

Select **one** answer for each area.

Customer Service/Cooperation	Strongly Agree	Agree	Sometimes Agree, Sometimes Disagree	Disagree	Strongly Disagree
Deals with me in a courteous and businesslike manner	1	2	3	4	5
Treats me fairly	1	2	3	4	5
Communicates well with me	1	2	3	4	5

**Q-5** To what extent do you agree or disagree that the **Program Office** provides customer service/cooperation in the following areas?

Select **one** answer for each area.

Planning Function	Strongly Agree	Agree	Sometimes Agree, Sometimes Disagree	Disagree	Strongly Disagree
Deals with me in a courteous, businesslike manner	1	2	3	4	5
Treats me fairly	1	2	3	4	5
Communicates well with me	1	2	3	4	5

## POLICIES AND PROCEDURES

**Q-6** To what extent do you agree or disagree with the following statements regarding the **Contracting Office's** role in policies and procedures?

Select **one** answer for each policies and procedures statement.

Policies and Procedures	Strongly Agree	Agree	Sometimes Agree, Sometimes Disagree	Disagree	Strongly Disagree
Knows about current acquisition policies, procedures, and strategies	1	2	3	4	5
Use appropriate tools (e.g., automation, electronic commerce, internet) to make my job easier	1	2	3	4	5
Works closely with me to monitor contract performance	1	2	3	4	5
Conduct procurement with high standards of integrity	1	2	3	4	5
Answers my contracting questions well, regardless of the staff person involved	1	2	3	4	5

**Q-7** To what extent do you agree or disagree with the following statements regarding the **Program Office's** role in policies and procedures?

Select **one** answer for each policies and procedures statement.

Policies and Procedures	Strongly Agree	Agree	Sometimes Agree, Sometimes Disagree	Disagree	Strongly Disagree
Knows about current acquisition policies, procedures, and strategies	1	2	3	4	5
Works closely with me to monitor contract performance	1	2	3	4	5
Answers my technical questions well, regardless of the staff person involved	1	2	3	4	5

## PRE-AWARD PHASE

**Q-8** To what extent do you agree or disagree that our **Contracting Office** provides the following aspects of the pre-award phase well?

Select **one** answer for each aspect of the pre-award phase.

Pre-Award Phase	Strongly Agree	Agree	Sometimes Agree, Sometimes Disagree	Disagree	Strongly Disagree
Understands the business aspects of the marketplace in which I operate	1	2	3	4	5
Responds promptly to my requests for procurement schedules	1	2	3	4	5
Has adequate understanding of my products and services	1	2	3	4	5
Works closely with me to resolve pre-award issues	1	2	3	4	5
Gives me sufficient time to respond to requests for proposals, cost/price data, etc.	1	2	3	4	5
Gives me sufficient opportunity to verify information on my past performance	1	2	3	4	5
Asks industry to help clarify government contract requirements (e.g., via draft solicitations), as appropriate	1	2	3	4	5

**Q-9** To what extent do you agree or disagree that the **Program Office** performs the following aspects of the pre-award phase well?

Select **one** answer for each aspect of the pre-award phase.

Pre-Award Phase	Strongly Agree	Agree	Sometimes Agree, Sometimes Disagree	Disagree	Strongly Disagree
Has adequate technical knowledge of my products, services, and capabilities	1	2	3	4	5
Develops statements of work that are clear and complete	1	2	3	4	5
Develops statements of work that tell me <b>what</b> must be done, now <b>how</b> to do it	1	2	3	4	5

## AWARD PHASE

**Q-10** To what extent do you agree or disagree that the **Contracting Office** performs the following aspects of the award phase well?

Select **one** answer for each aspect of the award phase.

Award Phase	Strongly Agree	Agree	Sometimes Agree, Sometimes Disagree	Disagree	Strongly Disagree
Uses appropriate evaluation factors to help select quality vendors	1	2	3	4	5
Uses clear and complete contract terms and conditions	1	2	3	4	5
Plans effectively for timely delivery	1	2	3	4	5
Evaluates my proposals without bias	1	2	3	4	5
Negotiates in good faith	1	2	3	4	5

**Q-11** To what extent do you agree or disagree that the **Program Office** performs the following aspects of the award phase well?

Select **one** answer for each aspect of the award phase.

Award Phase	Strongly Agree	Agree	Sometimes Agree, Sometimes Disagree	Disagree	Strongly Disagree
Uses appropriate evaluation factors to help select quality vendors	1	2	3	4	5
Evaluates my proposals without bias	1	2	3	4	5

## POST-AWARD PHASE

**Q-12** To what extent do you agree or disagree that the **Contracting Office** performs the following aspects of the post-award phase well?

Select **one** answer for each aspect of the post-award phase.

Post-Award Phase	Strongly Agree	Agree	Sometimes Agree, Sometimes Disagree	Disagree	Strongly Disagree
Develops contract monitoring strategies with me soon after contract award	1	2	3	4	5
Helps me obtain government-furnished data or equipment when I need it	1	2	3	4	5
Seeks to remedy contract administration problems quickly	1	2	3	4	5
Helps me receive timely payment	1	2	3	4	5
Provides helpful debriefings	1	2	3	4	5
Administers my contracts effectively	1	2	3	4	5



**Q-13** To what extent do you agree or disagree that the **Program Office** performs the following aspects of the post-award phase well?

Select **one** answer for each aspect of the post-award phase.

Post-Award Phase	Strongly Agree	Agree	Sometimes Agree, Sometimes Disagree	Disagree	Strongly Disagree
Develops contract monitoring strategies with me soon after contract award	1	2	3	4	5
Provides government-furnished data or equipment when I need it	1	2	3	4	5
Seeks to remedy contract administration problems quickly	1	2	3	4	5
Helps me receive timely payment	1	2	3	4	5
Provides useful information at debriefings	1	2	3	4	5

## SMALL BUSINESS

**Q-14** For contracting purposes, are you considered a Small Business Contractor or a Large Business Contractor for the majority of HHS contracts that you perform?

Select **one** answer.

1. Small Business Contractor (Continue to next question)
2. Large Business Contractor (Skip to Q-16 Government Property)

**Q-15** To what extent do you agree or disagree that small business personnel perform well in the following areas?

Select **one** answer for each area.

	Strongly Agree	Agree	Sometimes Agree, Sometimes Disagree	Disagree	Strongly Disagree	Not Applicable
Explain how to do business with HHS agencies	1	2	3	4	5	6
Help to resolve small business issues arising under my contracts (e.g., helping me get paid on time)	1	2	3	4	5	6
Let me know about contracting opportunities	1	2	3	4	5	6
Help to resolve pre-solicitation issues	1	2	3	4	5	6
Help to resolve solicitation issues	1	2	3	4	5	6

## GOVERNMENT PROPERTY/LOGISTICS

**Q-16** To what extent do you agree or disagree that logistics personnel (e.g., Property Administrators, Plant Clearance Officers, and Logistics Management Specialists) perform well in the following areas?

Select **one** answer for each area.

	Strongly Agree	Agree	Sometimes Agree, Sometimes Disagree	Disagree	Strongly Disagree	Not Applicable
Work in partnership with me to monitor the performance of my logistics support service contracts	1	2	3	4	5	6
Provide appropriate government-furnished property to permit timely and satisfactory contract performance	1	2	3	4	5	6
Help to resolve any logistics issues arising under my contracts	1	2	3	4	5	6
Help web-based logistics knowledge repositories available to me	1	2	3	4	5	6
Support the use, management, accounting, and disposal of major capital assets under my contracts	1	2	3	4	5	6

## PRIORITIES FOR IMPROVEMENT

**Q-17** If you could make improvements in the acquisition process, which of the following would you select?

Select **three (3)** answers.

1. Improved Use of Technology
2. Improved Communications with Contracting Office
3. Improved Communications with Program Office
4. Better Trained Contracting Staff
5. Better Trained Program Staff
6. More Responsive Contracting Staff
7. More Responsive Program Staff
8. Simpler Processes
9. Increased Clarity of Instruction and Guidance
10. Other (please specify other) \_\_\_\_\_

## BACKGROUND

**Q-18** Which of the following best describes your business organization?

Select **one** answer.

1. Small Business
2. Small Disadvantaged Business
3. 8(a) Business
4. Woman-owned Business
5. HUB Zone Business
6. Veteran-owned Business
7. Nonprofit/Educational Institution
8. Large Business
9. Other \_\_\_\_\_

**Q-19** What is the primary type of product or service that you provide to us?

Select **one** answer.

1. Research and Development
2. Studies and Evaluation
3. Biomedical Supplies or Equipment
4. IT/Telecom Equipment or Services
5. Management/Consulting Services
6. Facilities Management Services
7. Construction/Architecture-Engineering Services
8. Other Products or Services

For purposes of this survey, simplified acquisition procedures involve the use of purchase cards, purchase orders, electronic commerce, or federal supply schedules. We define all other procurement methods—such as sealed bidding, negotiated competition, and negotiated sole source—as contracts.

**Q-20** What is the primary way that our contracting office conducts procurement business with you?

Select **one** answer.

1. Simplified Acquisition Procedures
2. Contracts

**Q-21** How many years has your organization had simplified acquisitions or contracts with our office?

Select **one** answer.

1. Less Than 1 Year
2. 1 to 3 Years
3. 4 to 6 Years
4. 7 to 9 Years
5. More Than 9 Years

## COMMENTS

Please click in the space below if you would like to provide comments. Use this space to suggest specific changes that would improve the acquisition process, or to elaborate on your answers to the previous questions. Note: If you responded to any question with "Strongly Disagree" or "Very Dissatisfied," the applicable question is provided below, as a reminder, should you wish to provide additional detail.

## Acquisition Balanced Scorecard Survey: Managers

[OPDIV] is conducting this survey as part of an overall effort to assess the performance of its acquisition office under the Balanced Scorecard approach. The survey will be used for the sole purpose of evaluating organizational performance and will not be used for individual employee performance evaluations.

Please answer this survey based on the performance of your Acquisition Office during the past 12 months. If you wish to comment on any aspect of the acquisition process or to qualify your answer to any question, please use the Comments section at the end of the survey.

If you have questions about the survey or need technical assistance, please contact [Name] on [Telephone] or [e-mail].

Your cooperation is appreciated.

Insert OPDIV Logo Here



## OVERALL

**Q-1** How satisfied are you with the overall performance of your office?

1. Very Satisfied
2. Satisfied
3. Neither Satisfied nor Dissatisfied
4. Dissatisfied
5. Very Dissatisfied

## MISSION GOALS

*Please assess the use of planning, continuous improvement, and best practices in your office.*

**Planning:** *A planning process often has several basic steps. An organization may first establish a strategic plan that defines its general purpose and that may specify short-term (1-2 years) and long-term (3 or more years) goals. Second, the organization may communicate the plan to its employees. Third, the organization may implement tactical plans to define functional and operating responsibilities and actions necessary for achieving strategic goals, including performance-based requirements.*

**Q-2** To what extent does your acquisition office use a strategic/tactical planning process?

*Select **all** answers that apply.*

1. No Plans Established
2. Short-Term Plan Established
3. Long-Term Plan Established
4. Plans Communicated to the Organization
5. Plans Implemented

**Continuous Improvement:** *A continuous improvement system has several key characteristics. Senior management first authorizes the system and communicates it throughout the organization. In implementing the system, members of the organization regularly participate in continuous improvement efforts, assess customer satisfaction, recognize/reward employees, and measure progress.*

**Q-3** To what extent has your acquisition office planned and implemented a continuous improvement system?

*Select **all** answers that apply.*

1. No System Exists
2. System Planned
3. System Communicated Throughout the Organization
4. System Partially Implemented
5. System Fully Implemented

**Best Practices:** *Benchmarking of best practices from other organizations is a tool for improving performance.*

**Q-4** Which statement best describes your acquisition office's use of benchmarking in the last fiscal year?

Select **one** answer.

1. Did Not Benchmark
2. Explored the Feasibility of Benchmarking
3. Obtained Benchmarks from Other Organizations
4. Applied Benchmarks Occasionally
5. Applied Benchmarks Frequently

## **ACQUISITION EXCELLENCE**

**Organizational Placement:** *Placing the acquisition office at the proper organizational level relative to program offices may foster a balance between meeting program office requirements and following good business practices.*

**Q-5** What change in organizational level would provide a proper balance with most program offices?

Select **one** answer.

1. No Change Needed
2. Move One Level Higher
3. Move Two Levels Higher
4. Move More than Two Levels Higher

**Quality Assurance System:** *A full quality assurance system has several key attributes: quality standards are established and communicated, key performance areas are measured over time, statutory/regulatory compliance is maintained, and employees are informed of changes in law and regulation and provided guidance.*

**Q-6** To what extent does your acquisition organization have a quality assurance system?

Select **one** answer.

1. No System Exists
2. System Partially Implemented
3. System Fully Implemented with Satisfactory Quality
4. System Fully Implemented with Good Quality
5. System Fully Implemented with Excellent Quality



**Contractor Selection System:** *The quality of the contractors selected depends upon internal selection procedures, participation of project officers, and partnerships with the business community, including small businesses.*

**Q-7** To what extent do you agree or disagree with the following statements about your acquisition office's contractor selection system?

Select **one** answer for each statement.

	Strongly Agree	Agree	Sometimes Agree, Sometimes Disagree	Disagree	Strongly Disagree
Work statements are clear	1	2	3	4	5
Evaluation criteria are relevant	1	2	3	4	5
Evaluations are made objectively	1	2	3	4	5
Contracting methods are appropriate	1	2	3	4	5
Project Officers actively participate	1	2	3	4	5
Partnerships with the business community are strong	1	2	3	4	5

**Contract Protests:** *Offerors may file protests with HHS agency contracting officers (COs) or with the General Accounting Office (GAO)/HHS Secretary. For purposes of this survey, protests are considered sustained if the GAO/HHS Secretary has sustained them or the agency has taken action to remove the cause of the protest. (If needed, please consult with your local or headquarters protest control officer.)*

Select **one** answer for each question.

	Question	None	1-3	4-6	7-9	More than 9
Q-8	How many protests did offerors file with <b>HHS agency COs</b> last fiscal year for your acquisition office?	1	2	3	4	5
Q-9	How many protests did offerors file with the <b>GAO/HHS Secretary</b> last fiscal year for your acquisition office?	1	2	3	4	5
Q-10	How many protests were sustained in the last fiscal year of those file with <b>HHS agency COs</b> ?	1	2	3	4	5
Q-11	How many protests were sustained in the last fiscal year of those filed with the <b>GAO/HHS Secretary</b> ?	1	2	3	4	5

**Contract Administration:** A contract administration system is designed to ensure that contractors deliver products or services in accordance with contract terms and conditions. It includes functions such as monitoring contractor performance; managing contract modifications/task orders; inspecting, testing, and accepting deliverables; reviewing invoices; managing government property and closing contracts. Strategic alliances with contractors and customers—e.g., partnering and Alternative Disputes Resolution—may also be a useful supplement to a contract administration system.

**Q-12** To what extent does your acquisition organization have a contract administration system and strategic alliances?

Select **one** answer.

1. No System Exists
2. System Partially Implemented
3. System Fully Implemented with No Efforts for Strategic Alliances
4. System Fully Implemented with Initial Efforts for Strategic Alliances
5. System Fully Implemented with Strategic Alliances Well Established

## **STRATEGIC PURCHASING SYSTEM**

An organization may use various systems to reduce or avoid purchasing costs:

*Ad Hoc System. Relies upon employees to reduce purchasing costs without organizational procedures in place to assist them. Savings are minimal.*

*Basic System. Includes organizational procedures for surplus supplies, cost analysis, competitive bidding, auditing, and price negotiation. Savings approach 2 percent of obligated dollars.*

*Enhanced System. Includes features of basic system plus procedures for negotiating multiple-site contracts. Covers procedures for monitoring compliance with national or regional contracts, supporting lease/make versus buy decisions, participating in Reverse Auctions, and comparing prices against external market indices. Savings range between 2 and 3 percent of obligated dollars.*

*Complete System. Includes features of enhanced system plus strategies for improving contractor selection, performance, and pricing; implementing strategic sourcing, consolidation initiatives; and competitive sourcing; establishing a world-class supplier network; maintaining strong supplier relationships/evaluating supplier facilities; and working with suppliers to monitor and manage project costs and schedules. Savings exceed 3 percent of obligated dollars.*

**Q-13** What type of strategic purchasing system does your organization use?

Select **one** answer.

1. No Current System
2. Ad Hoc System
3. Basic System
4. Enhanced System
5. Complete System

## OPERATING EFFICIENCY

*The operating efficiency of your acquisition office may be gauged by measuring the relationship between acquisition operating costs and the volume and mix of contract actions that you award. To accurately estimate this efficiency, a quantitative operating efficiency analysis should be conducted using the statistical techniques of regression and data envelopment analysis. Although not a substitute for this quantitative analysis, the following qualitative efficiency questions are designed to elicit your opinion on general trends in your office's operating efficiency. If there were special events that affected your operating efficiency during the last five fiscal years (e.g., workload reductions stemming from contract consolidation), please use the comments section at the end of the survey to describe them.*

**Q-14** To what extent has the number of contract actions, including electronic commerce transactions, in your office changed over the last five fiscal years?

Select **one** answer for each type of action.

	Lower	Unchanged	Higher	Not Applicable
New negotiated contracts	1	2	3	4
New sealed bid contracts	1	2	3	4
Delivery/task orders	1	2	3	4
Funded modifications	1	2	3	4
Contract administration (e.g., number of contracts administered; closeouts conducted; disputes/protests resolved; customer service plans established; invoices reviewed). Include all items that you desire, and make consistent comparisons for the last five fiscal years.	1	2	3	4
Simplified acquisitions	1	2	3	4
Administrative modifications	1	2	3	4
Purchase cards (Including those provided to Program/Administrative Offices)	1	2	3	4

Other (e.g., Freedom of Information Act requests; referrals to other agencies; SOWs refined; market presentations conducted.) Include all items that you desire, and make consistent comparisons for the last five fiscal years

1. Lower
2. Unchanged
3. Higher
4. Not Applicable
5. Other (Please Specify) \_\_\_\_\_

**Q-15** What percentage of your office's funds are obligated in the fourth quarter of the fiscal year?

Select **one** answer.

1. Less than 30 Percent
2. 30-50 Percent
3. More than 50 Percent

## **INFORMATION TECHNOLOGY**

*Potentially useful information technologies for acquisition include automated acquisition systems, Electronic Commerce, Integrated Acquisition Environment systems, and Knowledge Management.*

**Q-16** Which statements best describe the use of information technology in your acquisition office?

Select **all** answers that apply.

1. Automated Acquisition Systems Occasionally Used
2. Automated Acquisition Systems Frequently Used
3. Electronic Commerce Occasionally Used
4. Electronic Commerce Frequently Used
5. Integrated Acquisition Environment Systems Occasionally Used
6. Integrated Acquisition Environment Systems Frequently Used
7. Knowledge Management Occasionally Used
8. Knowledge Management Frequently Used

## **WORKFORCE QUALITY**

*Please assess the following workforce quality factors: education, experience, individual development plans, instruction, rotational assignments, and certification.*

**Education:** *Some of your employees may have a college education in the specialized fields of acquisition, business, law, accounting, or public administration.*

**Q-17** What percentage of your acquisition staff has a bachelor's or higher degree in these specialized fields?

Select **one** answer.

1. Less than 20 Percent
2. 20-40 Percent
3. 41-60 Percent
4. 61-80 Percent
5. More than 80 Percent

**Experience :** *Acquisition experience may be obtained in either the public or private sector.*

**Q-18** What percentage of your acquisition staff has seven (7) or more years of acquisition experience?

Select **one** answer.

1. Less than 20 Percent
2. 20-40 Percent
3. 41-60 Percent
4. 61-80 Percent
5. More than 80 Percent

**Individual Development Plans:** *These plans may be helpful for the professional development of individual staff members.*

**Q-19** Which statements best describe the individual development plan efforts in your acquisition office?

Select **one** answer.

1. No Plans Exist
2. Discussions with Some Employees have Occurred
3. Plans Developed
4. Plans Implemented
5. Plans Monitored

**Instruction:** *Classroom and interactive multimedia instruction as well as on-the-job training may be part of a training program. An ad hoc program depends upon employees to identify training opportunities. A basic program identifies training needs and makes various types of instruction available to employees. An enhanced program addresses core competencies, evaluates the effectiveness of instruction, and improves instruction where necessary.*

**Q-20** Which statement best describes the training program for your acquisition staff?

Select **one** answer.

1. No Current Program
2. Ad Hoc Program
3. Basic Program
4. Enhanced Program

**Rotational Assignments:** *Rotational assignments may be part of an employee development program.*

**Q-21** What percentage of your staff participated in rotational assignments during the past three (3) fiscal years?

Select **one** answer.

1. Less than 10 Percent
2. 10-20 Percent
3. 21-40 Percent
4. 41-60 Percent
5. More than 60 Percent

**Certification:** *Contracting Officers and Project Officers may be certified by a combination of training and work experience.*

**Q-22** Which statement best describes your Contracting Officer certification program?

Select **one** answer.

1. No Certification Program Exists
2. About 25 Percent Certified
3. About 50 Percent Certified
4. About 75 Percent Certified
5. More than 75 Percent Certified

**Q-23** Which statement best describes your Project Officer certification program?

Select **one** answer.

1. No Certification Program Exists
2. About 25 Percent Certified
3. About 50 Percent Certified
4. About 75 Percent Certified
5. More than 75 Percent Certified

## **BACKGROUND**

**Q-24** To what extent has the number of employees in your office, including managers and clerical staff, changed over the last five fiscal years?

Select **one** answer.

1. Lower
2. Unchanged
3. Higher

**Q-25** To what extent has the average grade of employees in your office, including managers and clerical staff, changed over the last five fiscal years?

Select **one** answer.

1. Lower
2. Unchanged
3. Higher

**Q-26** What is the average number of full-time employees (including clerical staff and non-supervisory team leaders) per first-line supervisor in your office?

Select **one** answer.

1. Fewer than 7 Employees
2. 7-10 Employees
3. 11-14 Employees
4. 15-18 Employees
5. More than 18 Employees

**Q-27** What is the extent of your contracting authority?

Select **one** answer.

1. Limited to Simplified Acquisitions
2. Limited Contracting Authority Above Simplified Acquisitions Threshold
3. Unlimited Contracting Authority

**Q-28** Which description best characterizes your acquisition activities?

Select **one** answer.

1. Primarily Simplified Acquisitions
2. Primarily Sealed Bidding
3. Primarily Negotiated Acquisitions
4. Primarily Major System Acquisitions (as defined by FAR Part 34)

**Q-29** How long have you been managing your current acquisition office?

Select **one** answer.

1. Less than 1 year
2. 1-3 Years
3. 4-6 Years
4. 7-9 Years
5. More than 9 Years

**Q-30** How many full-time acquisition employees (excluding clerical personnel) are currently in your office?

Select **one** answer.

1. Fewer than 5 employees
2. 5-10 Employees
3. 11-15 Employees
4. 16-20 Employees
5. More than 20 Employees

## COMMENTS

Please use the space below to suggest specific changes that would improve the acquisition process, or to elaborate on your answers to any of the previous questions.

**ACQUISITION EMPLOYEE  
COMMUNICATION 1 (ALERT MESSAGE)**

Subject: Acquisition Employee Survey

Dear [Full Name]:

The [Division/Office Name], [OPDIV], Department of Health and Human Services (DHHS), has adopted the Balanced Scorecard approach to assess the performance of the acquisition function and to improve our operations. The Balanced Scorecard approach looks at performance from the perspective of four main groups of stakeholders: Acquisition Employees, Acquisition Managers, Project Officers, and vendors/suppliers. These perspectives provide a comprehensive and balanced picture of past performance and potential for improvements in future performance.

As part of this measurement and improvement effort, we are conducting a survey of all Acquisition employees.

In a few days, you will receive another e-mail detailing the procedure for completing the survey on the Internet. Please complete and submit the survey promptly. Please be assured that your response will be kept strictly confidential and only aggregate data will be reported.

Thank you for your assistance.

[Signatory/Title]



**ACQUISITION EMPLOYEE  
COMMUNICATION 2**

Subject: Acquisition Employee Survey

Dear [Full Name]:

The [Division/Office Name], [OPDIV], Department of Health and Human Services (DHHS), is conducting a survey of our office to assess contracting performance and improve the delivery of services.

A well-functioning acquisition process is essential for obtaining high quality, timely products and services, at reasonable costs. Soliciting your opinion is critical for evaluating and improving the results of the acquisition process.

The survey has two main purposes: One purpose of the survey is to replace the file-auditing approach of routine procurement management reviews. The surveys are less burdensome and time consuming. Another purpose of the survey is to empower you to self-assess and self-improve your acquisition operations. We need your input to identify how well we are doing.

In order that the results be truly representative, it is important that each person complete a survey. The survey is easy to access on the Internet and takes only about 15 minutes to complete.

Please be assured that your responses are kept strictly confidential and only aggregate data will be reported.

You may participate in the survey on the Internet by clicking on the link below (Internet Explorer Only)

[Click Here to Take the Survey](#)

When you have completed all pages of the survey, click on the submit button. After you receive confirmation that your entire survey was submitted, you may exit your browser program.

We are committed to making this survey successful. If you have any questions about the survey process, please reply to this message, or contact [Name] by phone at [Telephone], or by e-mail [e-mail address]

Thank you for your assistance.

[Signatory/Title]

**ACQUISITION EMPLOYEE  
COMMUNICATION 3**

Subject: Acquisition Employee Survey

Dear [Full Name]:

We recently sent you an e-mail message asking you to complete a performance survey on our office within the [Division Name/OPDIV]. This survey will assess acquisition performance and help improve the delivery of services. A well-functioning acquisition process is essential for obtaining high quality products and services on a timely basis and at reasonable costs. Soliciting the opinions of you, our employees, is critical for evaluating and improving the results of the acquisition process.

If you have already completed and submitted the survey, please accept our sincere thanks. If not, we urge you to complete and submit it today. In order that the results be truly representative, it is important that each person complete a survey. The survey is easy to access on the Internet and takes only about 15 minutes to complete.

Please be assured that your responses are kept strictly confidential and only aggregate data will be reported.

You may participate in the survey using the Internet by clicking on the link below (Internet Explorer Only)

[Click Here to Take the Survey](#)

When you have completed all pages of the survey, click on the submit button. After you receive confirmation that your entire survey was submitted, you may exit your browser program.

We are committed to making this survey successful. If you have any questions about the survey process, please reply to this message, or contact [Name] by phone at [Telephone], or by e-mail [e-mail address].

Thank you for your cooperation.

[Signatory/Title]

**ACQUISITION EMPLOYEE  
COMMUNICATION 4**

Subject: Acquisition Employee Survey

Dear [Full Name]:

We recently sent you messages asking you to complete a survey on the performance of our office.

As of today, we have not received your response.

It is important that you participate in the survey for the results to be truly representative. Please respond promptly. The survey is easy to access on the Internet and takes only about 15 minutes to complete.

Please be assured that your response is kept strictly confidential and only aggregate data will be reported.

You may participate in the survey using the Internet by clicking on the link below (Internet Explorer Only)

[Click Here to Take the Survey](#)

When you have completed all pages of the survey, click on the submit button. After you receive confirmation that your entire survey was submitted, you may exit your browser program.

We are committed to making this survey successful. If you have any questions about the survey process, please reply to this message, or contact [Name] by phone at [Telephone], or by e-mail [e-mail address].

Thank you for your cooperation.

[Signatory/Title]

**ACQUISITION EMPLOYEE  
COMMUNICATION 5**

Subject: Acquisition Employee Survey

Dear [Full Name]

According to our records, we recently sent you messages asking you to complete a survey on the performance of our office within the [Division/OPDIV]. We have not yet heard from you.

Please take the time now to respond to the survey. Every response is important to obtain a valid evaluation. The survey is easy to access on the Internet and takes only about 15 minutes to complete.

Please be assured that your response is kept strictly confidential and only aggregate data will be reported.

You may participate in the survey on the Internet by clicking on the link below (Internet Explorer Only)

[Click Here to Take the Survey](#)

When you have completed all pages of the survey, click on the submit button. After you receive confirmation that your entire survey was submitted, you may exit your browser program.

We are committed to making this survey successful. If you have any questions about the survey process, please reply to this message, or contact [Name] by phone at [Telephone], or by e-mail [e-mail address].

Thank you for your cooperation.

[Signatory/Title]

**ACQUISITION INTERNAL CUSTOMER  
COMMUNICATION 1 (ALERT MESSAGE)**

Subject: Acquisition Project Officer Customer Survey

Dear [Full Name]:

The [Division/Office Name], [OPDIV], Department of Health and Human Services (DHHS), has adopted the Balanced Scorecard approach to assess the performance of the acquisition function and to improve our operations. The Balanced Scorecard approach looks at performance from the perspective of four main groups of stakeholders: Project Officers, Acquisition Employees, Acquisition Managers, and vendors/suppliers. These perspectives provide a comprehensive and balanced picture of past performance and potential for improvements in future performance.

As part of this measurement and improvement effort, we are conducting a survey of our customers.

In a few days, you will receive another e-mail detailing the procedure for completing the survey on the Internet. Please complete and submit the survey promptly. Please be assured that your response will be kept strictly confidential and only aggregate data will be reported.

Thank you for your assistance.

[Signatory/Title]

## **ACQUISITION INTERNAL CUSTOMER COMMUNICATION 2**

Subject: Acquisition Project Officer Customer Survey

Dear [Full Name]:

The [Division/Office Name], [OPDIV], Department of Health and Human Services (DHHS), is conducting a survey of its internal customers to assess contracting performance and improve the delivery of services.

A well-functioning acquisition process is essential for obtaining high quality, timely products and services, at reasonable costs. Soliciting your opinion as one of our customers is critical for evaluating and improving the results of the acquisition process. We need your input to identify how well we are doing.

In order that the results be truly representative, it is important that each customer complete a survey. The survey is easy to access on the Internet and takes only about 15 minutes to complete.

Please be assured that your responses are kept strictly confidential and only aggregate data will be reported.

You may participate in the survey using the Internet by clicking on the link below (Internet Explorer Only)

[Click Here to Take the Survey](#)

When you have completed all pages of the survey, click on the [submit](#) button. After you receive confirmation that your entire survey was submitted, you may exit your browser program.

We are committed to making this survey successful. If you have any questions about the survey process, please reply to this message, or contact [Name] by phone at [Telephone], or by e-mail [e-mail address]

Thank you for your assistance.

[Signatory/Title]

## **ACQUISITION INTERNAL CUSTOMER COMMUNICATION 3**

Subject: Acquisition Project Officer Customer Survey

Dear [Full Name]:

We recently sent you an e-mail message asking you to complete a performance survey on the [Office Name] within the [Division Name/OPDIV]. This survey will assess acquisition performance and help improve the delivery of services. A well-functioning acquisition process is essential for obtaining high quality products and services on a timely basis and at reasonable costs. Soliciting the opinions of you, our customers, is critical for evaluating and improving the results of the acquisition process.

If you have already completed and submitted the survey, please accept our sincere thanks. If not, we urge you to complete and submit it today. In order that the results be truly representative, it is important that each customer complete a survey. The survey is easy to access on the Internet and takes only about 15 minutes to complete.

Please be assured that your responses are kept strictly confidential and only aggregate data will be reported.

You may participate in the survey using the Internet by clicking on the link below (Internet Explorer Only)

[Click Here to Take the Survey](#)

When you have completed all pages of the survey, click on the submit button. After you receive confirmation that your entire survey was submitted, you may exit your browser program.

We are committed to making this survey successful. If you have any questions about the survey process, please reply to this message, or contact [Name] by phone at [Telephone], or by e-mail [e-mail address].

Thank you for your cooperation.

[Signatory/Title]

**ACQUISITION INTERNAL CUSTOMER  
COMMUNICATION 4**

Subject: Acquisition Project Officer Customer Survey

Dear [Full Name]:

We recently sent you messages asking you to complete a Web-based survey on the performance of the [Office Name], Department of Health and Human Services, (DHHS). As of today, we have not received your response.

It is important that you participate in the survey for the results to be truly representative. Please respond promptly. The survey is easy to access on the Internet and takes only about 15 minutes to complete.

Please be assured that your response is kept strictly confidential and only aggregate data will be reported.

You may participate in the survey using the Internet by clicking on the link below (Internet Explorer Only)

[Click Here to Take the Survey](#)

When you have completed all pages of the survey, click on the submit button. After you receive confirmation that your entire survey was submitted, you may exit your browser program.

We are committed to making this survey successful. If you have any questions about the survey process, please reply to this message, or contact [Name] by phone at [Telephone], or by e-mail [e-mail address].

Thank you for your cooperation.

[Signatory/Title]



**ACQUISITION INTERNAL CUSTOMER  
COMMUNICATION 5**

Subject: Acquisition Project Officer Customer Survey

Dear [Full Name]

According to our records, we recently sent you messages asking you to complete a survey on the performance of the [Office Name] within the [Division/OPDIV]. We have not yet heard from you.

Please take the time now to respond to the survey. Every response is important to obtain a valid evaluation. The survey is easy to access on the Internet and takes only about 15 minutes to complete.

Please be assured that your response is kept strictly confidential and only aggregate data will be reported.

You may participate in the survey using the Internet by clicking on the link below (Internet Explorer Only)

[Click Here to Take the Survey](#)

When you have completed all pages of the survey, click on the submit button. After you receive confirmation that your entire survey was submitted, you may exit your browser program.

We are committed to making this survey successful. If you have any questions about the survey process, please reply to this message, or contact [Name] by phone at [Telephone], or by e-mail [e-mail address].

Thank you for your cooperation.

[Signatory/Title]

**ACQUISITION VENDOR  
COMMUNICATION 1 (ALERT MESSAGE)**

Subject: Acquisition Vendor Survey

Dear [Full Name]:

The [Division/Office Name], [OPDIV], Department of Health and Human Services (DHHS), has adopted the Balanced Scorecard approach to assess the performance of the acquisition function and to improve our operations. As part of this measurement and improvement effort, we are conducting a survey of our vendors and suppliers.

In a few days, you will receive another e-mail detailing the procedure for completing the survey on the Internet. Please complete and submit the survey promptly. Please be assured that your response will be kept strictly confidential and only aggregate data will be reported.

Thank you for your assistance.

[Signatory/Title]

**ACQUISITION VENDOR  
COMMUNICATION 2**

Subject: Acquisition Vendor Survey

Dear [Full Name]:

The [Division/Office Name], [OPDIV], Department of Health and Human Services (DHHS), is conducting a survey of its vendors/suppliers to assess contracting performance and improve the delivery of services to our internal customers and strengthen our partnership with the vendor/supplier community.

A well-functioning acquisition process is essential for obtaining high quality, timely products and services, at reasonable costs. Soliciting your opinion is critical for evaluating and improving the results of the acquisition process. We need your input to identify how well we are doing.

In order that the results be truly representative, it is important that each contractor complete a survey. The survey is easy to access on the Internet and takes only about 15 minutes to complete.

Please be assured that your responses are kept strictly confidential and only aggregate data will be reported.

You may participate in the survey using the Internet by clicking on the link below (Internet Explorer Only)

[Click Here to Take the Survey](#)

When you have completed all pages of the survey, click on the [submit](#) button. After you receive confirmation that your entire survey was submitted, you may exit your browser program.

We are committed to making this survey successful. If you have any questions about the survey process, please reply to this message, or contact [Name] by phone at [Telephone], or by e-mail [e-mail address]

Thank you for your assistance.

[Signatory/Title]

## **ACQUISITION VENDOR COMMUNICATION 3**

Subject: Acquisition Vendor Survey

Dear [Full Name]:

We recently sent you an e-mail message asking you to complete a performance survey on the [Office Name] within the [Division Name/OPDIV]. This survey will assess acquisition performance and help improve the delivery of services to our internal customers. A well-functioning acquisition process is essential for obtaining high quality products and services on a timely basis and at reasonable costs. Soliciting the opinions of you, our vendors/suppliers, is critical for evaluating and improving the results of the acquisition process.

If you have already completed and submitted the survey, please accept our sincere thanks. If not, we urge you to complete and submit it today. In order that the results be truly representative, it is important that each contractor complete a survey. The survey is easy to access on the Internet and takes only about 15 minutes to complete.

Please be assured that your responses are kept strictly confidential and only aggregate data will be reported.

You may participate in the survey using the Internet by clicking on the link below (Internet Explorer Only)

[Click Here to Take the Survey](#)

When you have completed all pages of the survey, click on the [submit](#) button. After you receive confirmation that your entire survey was submitted, you may exit your browser program.

We are committed to making this survey successful. If you have any questions about the survey process, please reply to this message, or contact [Name] by phone at [Phone number], or by e-mail [e-mail address].

Thank you for your cooperation.

[Signatory/Title]

**ACQUISITION VENDOR  
COMMUNICATION 4**

Subject: Acquisition Vendor Survey

Dear [Full Name]:

We recently sent you messages asking you to complete a Web-based survey on the performance of the [Office Name/OPDIV], Department of Health and Human Services, (DHHS). As of today, we have not received your response.

It is important that you participate in the survey for the results to be truly representative. Please respond promptly. The survey is easy to access on the Internet and takes only about 15 minutes to complete.

Please be assured that your response is kept strictly confidential and only aggregate data will be reported.

You may participate in the survey using the Internet by clicking on the link below (Internet Explorer Only)

[Click Here to Take the Survey](#)

When you have completed all pages of the survey, click on the submit button. After you receive confirmation that your entire survey was submitted, you may exit your browser program.

We are committed to making this survey successful. If you have any questions about the survey process, please reply to this message, or contact [Name] by phone at [Telephone], or by e-mail [e-mail address].

Thank you for your cooperation.

[Signatory/Title]

**ACQUISITION VENDOR  
COMMUNICATION 5**

Subject: Acquisition Vendor Survey

Dear [Full Name]

According to our records, we recently sent you messages asking you to complete a survey on the performance of the [Office Name] within the [Division/OPDIV]. We have not yet heard from you.

Please take the time now to respond to the survey. Every response is important to obtain a valid evaluation. The survey is easy to access on the Internet and takes only about 15 minutes to complete.

Please be assured that your response is kept strictly confidential and only aggregate data will be reported.

You may participate in the survey on the Internet by clicking on the link below (Internet Explorer Only)

[Click Here to Take the Survey](#)

When you have completed all pages of the survey, click on the submit button. After you receive confirmation that your entire survey was submitted, you may exit your browser program.

We are committed to making this survey successful. If you have any questions about the survey process, please reply to this message, or contact [Name] by phone at [Telephone], or by e-mail [e-mail address].

Thank you for your cooperation.

[Signatory/Title]

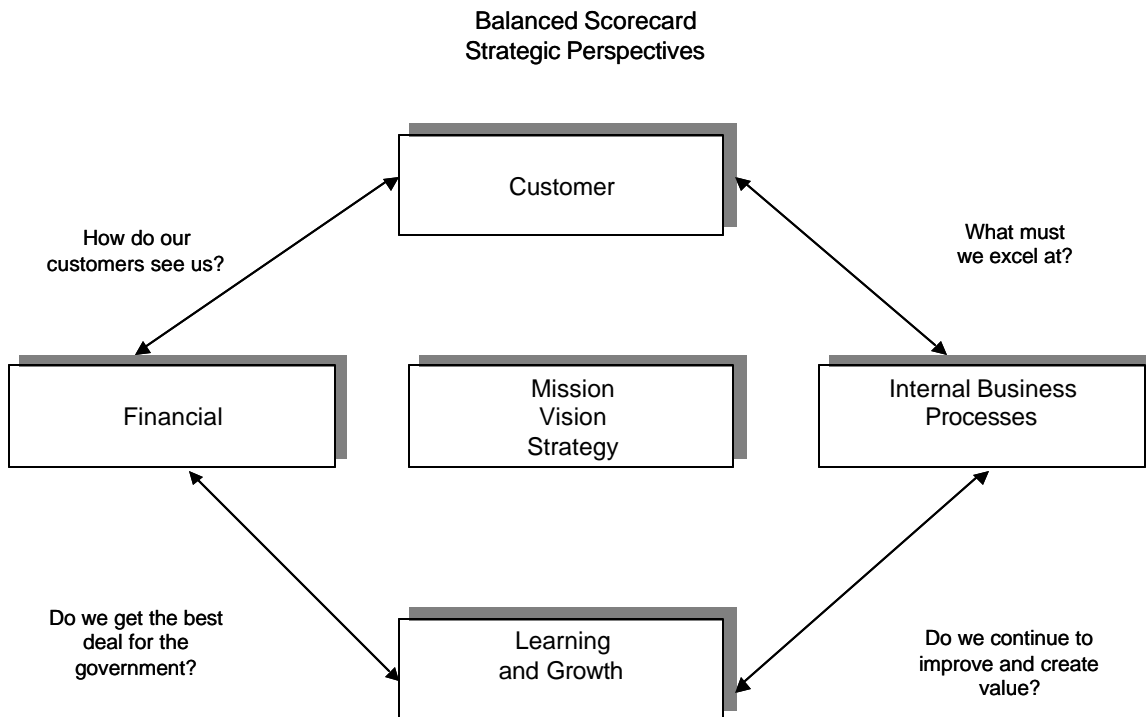
## Data Links

This section relates the questions in each survey to the perspectives of the Balanced Scorecard. The pages that follow in this section identify the perspectives, surveys, subject areas, question numbers, and text of the questions.

As the framework for its performance measurement and improvement system, DHHS uses a Balanced Scorecard approach. That approach examines an organization's performance from four broad perspectives: financial, customer, internal business processes, and learning and growth. These perspectives provide a complete picture of the organization's past and current performance, as well as its potential for improved future performance. Figure 1 depicts the Balanced Scorecard framework. A brief explanation of each of the perspectives follows:

- ◆ *Financial perspective.* This perspective is intended to measure the success of the organization in achieving cost efficiency. It asks the question: How well does the organization succeed in delivering maximum value to the customer?
- ◆ *Customer perspective.* This perspective is intended to measure the success of the organization in serving its customers. It asks the question: How well does the organization satisfy the needs of its customers?
- ◆ *Internal business processes perspective.* This perspective is intended to measure the success of the organization in developing and implementing effective internal business processes. It asks the question: How well does the organization excel in its internal business processes used to serve its customers and the interests of its stakeholders?
- ◆ *Learning and growth perspective.* This perspective is intended to measure the success of the organization in continuously learning and growing, consistent with its vision and business strategy. It asks the question: How well does the organization grow and change in order to sustain its ability to serve its customers and the interests of its stakeholders?

Figure 1. Balanced Scorecard Framework



Source: Procurement Executives' Association, *Guide to a Balanced Scorecard Performance Management Methodology*, p. 8.

The mission of the DHHS is

To enhance the health and well-being of Americans by providing for effective health and human services, and by fostering sound, sustained advances in the sciences underlying medicine, public, health, and social services.

The *Strategic Plan* describes the Department's goals for a multi-year period and the *Annual Performance Plan* highlights performance measures and targets specific to the current year.

This *Manual for Performance Measurement and Improvement* for Acquisition, Grants Management, Small Business, and Government Property/Logistics provides a Balanced Scorecard approach to ensuring that these areas continue to provide an enhanced capability of supporting and accomplishing the Mission, Strategic and Performance Plans of the Department.

The depiction of the Balanced Scorecard Framework in Figure 1 shows the high-level strategic perspectives currently in use. Within each strategic perspective there may be one or more goals, such as improving quality, service, or timeliness. For each of those goals a series of questions asks employees, customers, vendors/grant recipients, and managers to evaluate performance in a specific area. For example, the acquisition customer survey asks customers to evaluate the procurement office on "plans effectively for timely delivery" and "meets projected contract award dates." The set of supplements to this manual contain the full list of questions for each survey and their linkage to the balanced scorecard perspectives.



## *Linkage of Acquisition Survey Data to Balanced Scorecard Perspective*

Survey	Subject	Question	Question Element
<b>Financial Perspective</b>			
Employee	Policies and Procedures	Q2d	My procurement office adds value in accomplishing the agency mission
		Q2e	My supervisors properly balance program office needs and taxpayer interests
Employee	Partnership Relationships	Q4h	Customers furnish realistic independent government cost estimates
		Q4l	Customers review invoices on a timely basis
Internal customer	Award Phase	Q8b	Selects vendors with best value (quality and price)
Vendor	Pre-Award Phase (Contracting Office)	Q8a	Understands the business aspects of the marketplace in which I operate
		Q8e	Gives me sufficient time to respond to requests for proposals, cost/price data, etc.
Vendor	Award Phase (Contracting Office)	Q10b	Uses clear and complete contract terms and conditions
		Q10d	Negotiates in good faith
Vendor	Post-Award Phase (Contracting Office)	Q12d	Helps me receive timely payment
Vendor	Post-Award Phase (Program Office)	Q13d	Helps me receive timely payment
<b>Internal Business Processes Perspective</b>			
Employee	Policies and Procedures	Q2a	Procurement policy issues are adequately communicated to me
		Q2b	My procurement office displays a professional attitude and accompanying behavior
		Q2c	My procurement office has clear written goals
		Q2f	Procurement operations are conducted impartially
Employee	Process Improvement	Q3a	My supervisors seek continuous improvement in my performance
		Q3b	My supervisors measure my performance against goals and objectives
		Q3c	I respect the leadership abilities of my immediate supervisor
		Q3d	I respect the leadership abilities of management above my immediate supervisor
		Q3e	Supervisory personnel emphasize quality in our work products
		Q3f	My supervisors are acquisition professionals

## *Linkage of Acquisition Survey Data to Balanced Scorecard Perspective*

Survey	Subject	Question	Question Element
Employee	Work Environment	Q3g	I would recommend my procurement office as a place of employment
		Q5a	Team contributions are recognized
		Q5b	Individual contributions are recognized
		Q5d	Workload is distributed fairly
		Q5g	People work together effectively on teams and help each other to get the job done
		Q5h	Work units within the office communicate well with one another
		Q5j	Tools are furnished as needed (e.g., specialized software)
Employee	Workforce Development/ Training	Q6c	Our Acquisition System is designed, integrated, and administered in a way that helps me perform my job tasks efficiently and effectively
Internal customer	Simplified Acquisition Procedures	Q3a	Provides excellent overall performance using simplified methods
		Q3c	Explains project/contract office roles and responsibilities
		Q3d	Obtains products/services when I need them
		Q3e	Plans effectively for timely delivery
		Q3f	Provides consistent guidance regardless of whom I talk to
Internal customer	Pre-Award Phase	Q7c	Has adequate knowledge of products/ services being procured
		Q7d	Understands the marketplace for products/ services being procured
Internal customer	Post-Award Phase	Q9a	Works with me on contract monitoring strategy soon after contract award
Internal customer	Service/Partnership	Q10d	Supports my organization's mission
		Q10e	Helps me to solve problems quickly and effectively
		Q10f	Shows flexibility in meeting my specific needs
		Q10h	Provides consistent guidance regardless of whom I talk to
Vendor	Policies and Procedures (Contracting Office)	Q6a	Knows about current acquisition policies, procedures, and strategies
		Q6b	Uses appropriate tools (e.g., automation, electronic commerce, internet) to make my job easier
		Q6c	Works closely with me to monitor contract performance

## *Linkage of Acquisition Survey Data to Balanced Scorecard Perspective*

Survey	Subject	Question	Question Element
Vendor	Policies and Procedures (Program Office)	Q6d	Conducts procurements with high standards of integrity
		Q6e	Answers my contracting questions well, regardless of the staff person involved
		Q7a	Knows about current acquisition policies, procedures, and strategies
Vendor	Pre-Award Phase (Contracting Office)	Q7b	Works closely with me to monitor contract performance
		Q7c	Answers my technical questions well, regardless of the staff person involved
		Q8c	Has adequate understanding of my products and services
Vendor	Pre-Award Phase (Contracting Office)	Q8f	Gives me sufficient opportunity to verify information on my past performance
		Q8g	Asks industry to help clarify government contract requirements (e.g., via draft solicitations), as appropriate
		Q9a	Has adequate technical knowledge of my products, services, and capabilities
Vendor	Pre-Award Phase (Program Office)	Q9b	Develops statements of work that are clear and complete
		Q9c	Develops statements of work that tell me what must be done, not how to do it
		Q10a	Uses appropriate evaluation factors to help select quality vendors
Vendor	Award Phase (Contracting Office)	Q10c	Evaluates my proposals without bias
		Q11a	Uses appropriate evaluation factors to help select quality vendors
		Q11b	Evaluates my proposals without bias
Vendor	Post-Award Phase (Contracting Office)	Q12a	Develops contract monitoring strategies with me soon after contract award
		Q12b	Helps me obtain government-furnished data or equipment when I need it
		Q12c	Seeks to remedy contract administration problems quickly
		Q12e	Provides helpful debriefings
		Q12f	Administers my contracts effectively
		Q13a	Develops contract monitoring strategies with me soon after contract award
Vendor	Post-Award Phase (Program Office)	Q13b	Provides government-furnished data or equipment when I need it
		Q13c	Seeks to remedy contract administration problems quickly

## *Linkage of Acquisition Survey Data to Balanced Scorecard Perspective*

Survey	Subject	Question	Question Element
		Q13e	Provides helpful debriefings
<b>Customer Perspective</b>			
Employee	Partnership Relationships	Q4a	My project officers encourage my participation early in the project planning process
		Q4b	My project officers and I clearly define and understand the roles and responsibilities within the acquisition process
		Q4c	My project officers and I work together closely throughout the acquisition process
		Q4d	Customers treat me with respect
		Q4e	Customers respect my contracting expertise
		Q4f	Customers know about the products/services procured
		Q4g	Customers provide complete SOWs and evaluation criteria as part of the initial acquisition package
		Q4i	Customers provide meaningful support in the negotiation process
		Q4j	Customers prevent delays in product/service delivery
		Q4k	Customers monitor contractor performance carefully
		Q4m	Customers evaluate proposals impartially
		Q4n	Customers provide generally satisfactory performance
Internal customer	Simplified Acquisition Procedures	Q3b	Deals with me in a courteous and business-like manner
Internal customer	Planning Phase	Q6a	Works with me to develop procurement strategies early
		Q6b	Explains project/contract office roles and responsibilities
		Q6c	Plans effectively for timely delivery
Internal customer	Pre-Award Phase	Q7a	Meets critical milestones in the procurement process
		Q7b	Suggests ways to strengthen my statements of work
		Q7e	Informs me of current status of procurements
Internal customer	Award Phase	Q8a	Meets projected contract award dates
		Q8c	Conducts procurements impartially
Internal customer	Post-Award Phase	Q9b	Works closely with me to monitor contractor's performance

## *Linkage of Acquisition Survey Data to Balanced Scorecard Perspective*

Survey	Subject	Question	Question Element
Internal customer	Service Partnership	Q9c	Prevents problems that may lead to delivery delays
		Q9d	Obtains products/services when I need them
		Q9e	Obtains high-quality products/services
		Q10a	Deals with me in a courteous and business-like manner
		Q10b	Respects my technical expertise
		Q10c	Communicates well with me
Vendor	Customer Service/ Cooperation (Contracting Office)	Q10g	Returns my calls and/or e-mails in a timely manner
		Q10i	Provides excellent services overall
		Q4a	Deals with me in a courteous and business-like manner
Vendor	Customer Service/ Cooperation (Program Office)	Q4b	Treats me fairly
		Q4c	Communicates well with me
		Q5a	Deals with me in a courteous and business-like manner
Vendor	Pre-Award Phase (Contracting Office)	Q5b	Treats me fairly
		Q5c	Communicates well with me
		Q8b	Responds promptly to my requests for procurement schedules
Vendor	Pre-Award Phase (Contracting Office)	Q8d	Works closely with me to resolve pre-award issues
		Learning and Growth Perspective	
Employee	Work Environment	Q5c	My work schedule is flexible
		Q5e	My supervisor's communications are candid and timely
		Q5f	Supervisors solicit my opinions and ideas regularly
		Q5i	Physical working conditions are acceptable
Employee	Workforce Development/ Training	Q6a	I receive training to perform my job efficiently and effectively
		Q6b	I am given discretion to make appropriate decisions
		Q6c	Acquisition System training is accompanied by useful instruction and guidance on how to apply it
		Q6e	I receive adequate support (e.g., coaching, mentoring, varied and meaningful work) for career development and progression.

### *Linkage of Acquisition Survey Data to Balanced Scorecard Perspective*

Survey	Subject	Question	Question Element
Internal customer	Training	Q19	To what extent do you agree or disagree that the procurement office encourages you to get the necessary acquisition training?
Internal Customer		Q20	Have you received any training on your role in the acquisition process (e.g., Basic Project Officer course)
Internal Customer		Q21	To what extent do you agree or disagree that the acquisition training you receive helps you to perform your job better and achieve program goals?

## Vulnerability Indicators and Index

Many questions in the survey instruments pertain to compliance issues—areas that are directly related to fulfillment of particular policies and procedures. For example, the acquisition customer survey contains a question element that asks whether the respondent agrees or disagrees that procurements are conducted impartially. To create a vulnerability risk index for these types of issues, DHHS and the OPDIVs identified the question elements (questions have several parts) that are compliance indicators. Some of the question elements were designated as being more important than others, so they have been named Vulnerability Critical Indicators (VCIs). If the scores for these items fall below an established threshold, then the organization is probably at risk of being noncompliant. (Weighting the results by importance or relationship to the process was considered, but dropped because weighting did not fundamentally change the results, nor did it provide additional insight into the data.)

The VCIs require greater visibility within the results and as such are reported on individually. The VCI scores are created from the survey data by using the percentage of positive responses received to the question item.

In addition to the most critical indicators, other question items related to compliance are combined into a second index of other compliance indicators.

## Acquisition Vulnerability Indicators

<b>Vulnerability Critical Indicators (VCIs)</b>		
Survey	Question	Question element wording
Employee	2e	My supervisors properly balance program office needs and taxpayer interests
	2f	Procurement operations are conducted impartially
	4m	Customers evaluate proposals impartially
Internal customer	7c	Conducts procurements impartially
Vendor	6d	Conducts procurements with high standards of integrity
<b>Other Indicators</b>		
Employee	2a	Procurement policy issues are adequately communicated to me
	2b	My procurement office displays a professional attitude and accompanying behavior
	2d	My procurement office adds value in accomplishing the Agency mission
	3a	My supervisors seek continuous improvement in my performance
	3b	My supervisors measure my performance against goals and objectives
	3e	Supervisory personnel emphasize quality in our work products
	3f	My supervisors are acquisition professionals
	4g	Customers provide complete statements of work and evaluation criteria as part of the initial acquisition package
	4h	Customers furnish realistic independent government cost estimates
	4i	Customers provide meaningful support in the negotiation process
	4k	Customers monitor contractor performance carefully
	4l	Customers review invoices on a timely basis
Internal customer	5a	Works with me to develop procurement strategies early
	5c	Plans effectively for timely delivery
	6b	Suggests ways to strengthen my statements of work
	6c	Has adequate knowledge of products/services being procured
	6d	Understands the marketplace for products/services being procured
	7a	Meets projected contract award dates
	7b	Selects vendors with best value (quality and price)
	8c	Prevents problems that may lead to delivery delays
	8e	Obtains high-quality products/services
	9d	Supports my organization's mission
Vendor	8e	Gives me sufficient time to respond to requests for proposals, cost/price data, etc.
	9b	Develops statements of work that are clear and complete
	9c	Develops statements of work that tell me what must be done, not how to do it
	10b	Uses clear and complete contract terms and conditions



# **Group Reward and Recognition**

Prepared for the Acquisition Performance Measurement and Improvement Users Group of  
the Department of Health and Human Services

August 1997



# Contents

---

INTRODUCTION.....	1
SUMMARY OF RECOMMENDATIONS .....	3
THE STATUTES AND OPM GUIDANCE.....	4
MOTIVATING EMPLOYEES .....	6
Intrinsic Motivation .....	7
Extrinsic Motivation .....	13
DIFFICULTIES WITH EMPLOYEE EVALUATION.....	16
USE TEAMS IN ANY CASE.....	18
Team Incentives.....	19
Team Recognition in a TQM Environment .....	20
Individual Rewards Within Teams.....	23
EMPLOYEE CONTROL—IMPORTANT FOR ACCEPTANCE.....	23
CONCLUSIONS .....	25
IMPLEMENTATION.....	27
REFERENCES .....	28
APPENDIX: IMPLEMENTATION GUIDANCE—EXAMPLES FROM THE LITERATURE .....	31



# Group Reward and Recognition

---

## INTRODUCTION

To monitor the performance of the procurement function the Department of Health and Human Services (HHS) is using a balanced scorecard approach. It is focused on applying team efforts to make procurement system improvements. This paper builds upon the recent reward and recognition guidance given to the HHS Acquisition Performance Measurement and Improvement Users Group. It discusses approaches to group reward and recognition, identifies options for the HHS Operating Divisions (OPDIVs) to consider for implementation, and links reward and recognition systems to the HHS acquisition balanced scorecard.

In parallel with this HHS initiative, an enhanced system of performance incentives for the acquisition work force has been called for in the recent acquisition streamlining statutes and initiatives. In March 1997, the Administrator of the Office of Federal Procurement Policy (OFPP), a member of the President's Management Council (PMC), urged federal agencies to provide cash bonuses to teams of employees who have achieved outstanding results in contracting, as the next step in moving towards results-based accountability for the procurement system. He asked each agency to set aside an amount for one or more annual department-level bonus awards to teams of employees—consisting of procurement personnel or procurement and program people working together—who have achieved excellence in contracting. [FCR]<sup>1</sup> These department-level awards may dovetail nicely with OPDIV-level bonuses.

Studies of reward and recognition systems and underlying motivation have proliferated as the development of more and more such systems has been attempted. With increased interest in group or team efforts, additional complexity has been introduced. Most of the previous work on this subject has been addressed to the private for-profit sector rather than to government, since the private sector has clear-cut measures of success. But the public sector in general lacks such measures—in particular the commercial world's primary measure: demonstrated ability to attract and retain customers in a competitive marketplace and to serve them in a manner that produces profits (although the Government Performance and Results Act [GPRA] and franchising may alter this landscape somewhat). And without effective performance measures, reward and recognition become sources of dissatisfaction rather than positive motivators.

---

<sup>1</sup> Bracketed abbreviations, names, or numbers following portions of the text refer to sources or to the names of authors and page numbers for documents listed in the "References" section at the end of this paper.

In the for-profit private sector, managers have tried to develop systems that will link reward to performance. Many approaches have been tried: stock options, bonuses, profit sharing, gain-sharing, prizes, public recognition, etc. Within the not-for-profit public sector, such as in the federal government, some of these options are not available. However, the statutes and the Office of Personnel Management (OPM) do allow many types of rewards.

Some of the means of reward and recognition in the private sector have been established as compensation systems to deal with the entire employee pay issue. At present, much of the effort to review compensation systems is undertaken with a view to making them more flexible. If this effort is successful, the employee's pay becomes a variable cost rather than a fixed one. Managers argue that in that case companies would then be able to be more responsive to changing market conditions. These same issues underlie the discussion with regard to the government and may become immediately relevant, particularly in fee-for-service operations. Although there may be no real separation, this paper focuses on the use of rewards and recognition rather than the general compensation system in use.

As organizations try to improve their operations by using the precepts of quality management, they increasingly emphasize the use of teams. But doing so makes the reward and recognition process even more challenging. A host of questions arise. Should the entire team be recognized equally? What about "free riders?" Does any effort to distinguish differences within teams destroy the purpose of establishing the team in the first place? Is it good to have teams compete against one another? Or does the use of team competition establish still another counter-productive type of behavior within the organization?

Should rewards be used? Especially in an environment in which teamwork is being encouraged, do they thwart efforts at building teams? Does the offering of extrinsic rewards drive out motivation that stems from the employees' intrinsic motivation?<sup>2</sup> Does the institution of an award system indicate that the management has decided that the work cannot be intrinsically motivating?

If reward and recognition programs are to be established, how should this be done? Most of the literature on this point quickly concludes that employees should have a great deal of input in this area. But should they have the final say? Won't management lose control? For instance, how can the rewards be set up to guide the employees toward the correct goals, unless it is the managers who establish the reward and recognition systems?

---

<sup>2</sup> Intrinsic motivation is related to aspects of the job itself. Extrinsic motivation is related to outside factors.

## SUMMARY OF RECOMMENDATIONS

Our recommendations are given in brief in this section. We discuss the rationale for each in the main body of the paper.

In all cases the primary focus should be on intrinsic motivation. This should be done in part by stressing the importance of the mission of the unit and the significance of the tasks to support the mission. This should not be difficult in HHS. Managers should make employees' tasks interesting, varied, and challenging—also easy to do in most procurement situations. Managers should give people choice, control, individual responsibility, and feedback—following the general thrust of recent guidance in the profession. Managers at all levels should continually emphasize the professional nature of the work and workers in acquisition—that they are the government's professional business experts in market research, contract competition, performance-based work statements, negotiation, cost/price analysis, acquisition streamlining and innovation, and monitoring contractor performance.

If extrinsic rewards are needed at all, they should be as closely linked to the normal work effort as possible to minimize the risk of harming intrinsic motivation. Some extrinsic rewards that might be suitable are special training in the same work area or allowing a team to manage its own budget. Eventually, if any extrinsic rewards are used, they should be linked to the balanced scorecard performance measurement approach.<sup>3</sup>

Intrinsic motivation or extrinsic rewards should be implemented with a team structure in mind. The development of a true team (not just a committee or group) for motivation issues is as important as or more important than team development for functional purposes. The members must be committed to a common purpose, set performance goals, learn to work together, make decisions, resolve conflicts and delegate responsibilities.

All members of a team should be rewarded equally so that no contests between team members are inadvertently established. Rewards should be offered after the fact as a surprise, not by formula and not on a periodic basis.

To ensure employee acceptance of and participation in any extrinsic reward and recognition system, they must understand the system. Understanding and employee “buy-in” to the system are more easily accomplished when the employees have participated in

---

<sup>3</sup> Extrinsic reward systems must be linked to the organization's mission, vision, and goals. A comprehensive structure of acquisition performance survey and efficiency measures has to be in place if a balanced scorecard system is to provide suitable reward and recognition signals. We have developed the basic elements of such a structure, but they have to be integrated into a comprehensive, meaningful whole. It is not useful to select any one subset of performance measures—e.g., timeliness, quality, service-partnership, or efficiency—because that may result in suboptimizing attainment of the primary goal.

the its design. As much as possible, within the limits of the Office of Management and Budget (OMB), OPM, HHS, and OPDIV regulations and individual manager's requirements (or any granted exemptions), allow the team to determine its reward and recognition system.

Be aware of, watch out for, and avoid common pitfalls in implementing reward and recognition systems. Such systems are sometimes expected to correct all organizational problems, especially when the root causes are not well defined. Reward and recognition for teams require changes to old-style management, including the job appraisal process, because managers must be willing to give up control in order to empower the employee teams.

## THE STATUTES AND OPM GUIDANCE

The statutes are very supportive of providing a wide range of reward and recognition programs. The Code of Federal Regulations states that agencies are authorized to “grant a cash, honorary, or informal recognition award or grant time-off without charge to leave or loss of pay...to an employee, as an individual or member of a group, on the basis of—

A suggestion, invention, superior accomplishment, productivity goal, or other personal effort that contributes to the efficiency, economy, or other improvement of Government operations or achieves a significant reduction in paperwork;

A special act or service in the public interest...;

Performance as reflected in the employee's most recent rating of record....” [OPM]

Awards that are not based on the employee's rating of record must be documented. In addition, awards over \$10,000 or to a member of the SES or excepted service or to those appointed by the President have special requirements. Agencies must explain their award programs, evaluate and document them, file and report data, and maintain records. Programs must provide for their funding. Finally, “agencies shall give due weight to an award ... in qualifying and selecting an employee for promotion....”

“Chapter 45 of title 5, United States Code, authorizes agencies to pay a cash award to, grant time-off to, and incur necessary expense for the honorary recognition of, an employee (individually or as a member of a group).... Such awards include but are not limited to, employee incentives which are based on predetermined criteria, such as productivity standards, performance goals, measurement systems, award formulas, or pay-out schedules.... Agencies are encouraged to involve employees in developing such programs.”[OPM]



In January, 1997, OPM issued guidance and policy interpretation on using non-monetary items as incentive awards. The OPM guidance cited the authority of the law (as noted above), pointed out that there is no explicit authority for non-monetary awards, and discussed several possible uses for them under various situations. Non-monetary items used for honorary awards, the most formal type of recognition, must meet all of the following criteria:

- ☐ The item must be something that the recipient could reasonably be expected to value, but not something that conveys a sense of monetary value.
- ☐ The item must have lasting trophy value.
- ☐ The item must clearly symbolize the employee–employer relationship in some fashion.

The item must take an appropriate form to be used in the public sector and to be purchased with public funds.

Informal recognition awards, which may recognize contributions of lesser scope that might otherwise go unrecognized, must meet these criteria:

The item must be of nominal value.

The item must take an appropriate form to be used in the public sector and to be purchased with public funds.

U.S. Savings Bonds are a special category of non-monetary item that OPM considers appropriate for either honorary or informal recognition awards, depending on their value.

Since many agencies now use electronic fund transfers, routinely making “cash” awards may be difficult, so cash surrogates are sometimes used as a special form of cash award. An agency-issued “award voucher,” which can be exchanged for currency through the imprest fund, is an example of an acceptable cash surrogate. “Gift cheques” purchased from a vendor and easily and widely redeemable for cash, rather than just merchandise, are also acceptable. The tax withholding obligations for cash surrogates are the same as those for cash awards. OPM approves of cash surrogates as long as their recipients have the same freedom and control over their use as they would over cash awards (including saving them or giving them away) and as long as they meet these criteria:

They are subject to all the limitations and requirements that apply to cash awards.

They must be easily and immediately convertible to cash.

- They must be widely redeemable—not just where purchased, at a few selected sites outside the agency, or through specific vendors.
- If purchased from a vendor or financial institution, they are subject to all relevant procurement regulations.

Merchant gift certificates usually have too many limitations to meet the requirements for cash surrogates, and they do not meet the requirements for honorary awards, but they may be used as an informal recognition award of nominal value.

The Federal Acquisition Streamlining Act (Public Law 103-355, Subtitle B, Section 5051) directs the Director for Management in the OMB to

“review the incentives and personnel actions available to the heads of departments and agencies of the Federal Government for encouraging excellence in the acquisition work force of the Federal Government and provide an enhanced system of incentives for the encouragement of excellence in such work force which (A) relates pay to performance (including the extent to which the performance of personnel in such work force contributes to achieving the cost goals, schedule goals, and performance goals established for acquisition programs pursuant to section 313(b) of the Federal Property and Administrative Services Act of 1949, as added by subsection (a)); and (B) provides for consideration, in personnel evaluations and promotion decisions, of the extent to which the performance of personnel in such work force contributes to achieving such cost goals schedule goals, and performance goals. [FASA]

A bill recently considered by Congress would allow private-sector companies to offer time-and-a-half compensatory time instead of paying for overtime. The bill does not affect government employees, who already get compensatory time off, but its passage would help support their efforts to increase “comp time” to time and a half. [Jones]

The statutes and regulations appear to allow sufficient latitude to provide reward and recognition systems to fit most situations.

## MOTIVATING EMPLOYEES

Two sources of motivation are usually distinguished—intrinsic and extrinsic. Intrinsic motivation is related to aspects of the job itself. As a job increases in interest, variety, and responsibility, the individual can derive satisfaction and motivation from the job itself. Extrinsic motivation is related to outside factors, such as incentive payments for exceeding a goal or other types of monetary and nonmonetary rewards.

The underlying philosophy of managers will strongly influence the reward and recognition system adopted by each agency. If managers believe that the work force is primar-

ily motivated by intrinsic factors, the reward system will be very different from the one they would use if they believed that extrinsic rewards are of paramount importance. The perceived need for employee performance evaluation and its degree of objectivity or subjectivity will be especially important if extrinsic rewards are used primarily. The managers' comfort with allowing teams to have autonomy and to exercise discretion will also shape the reward system. This section will review some highlights of research in motivation and will discuss intrinsic and extrinsic motivation, employee performance evaluation, and the use and control of teams.

Frederick Taylor, writing on scientific management principles in 1911, believed that efficiency could be dramatically improved by using the techniques he advised. One implication of his work is that incentive wages can increase output. Elton Mayo, in 1927, described the importance of the group in the workplace. Mayo and others were involved in the workplace studies at the Hawthorne plant of Western Electric in Chicago, where the interaction between the workers and the experiments became one of the major findings of the research. An incentive payment plan approved by the workers was one of the experimental changes. Abraham Maslow found that people have a hierarchy of needs and that a satisfied need is not a motivator. High-level needs, such as for self-actualization, remain important long after needs for food and safety have been filled and no longer motivate the worker. In 1960, Douglas McGregor used Theory X (humans dislike work, must be controlled, prefer direction) and Theory Y (humans view work as a natural activity, exercise self-direction and self-control for committed objectives, make commitments as a function of rewards, and seek responsibility) to discuss managers' approaches to motivation. Frederick Herzberg divided factors into two groups: hygiene (policy and administration, supervision, working conditions) and motivators (achievement, recognition, work, responsibility, advancement, growth). Chris Argyis suggests offering job challenge and opportunity (and needed training) to employees to achieve motivation. Rensis Likert is a strong proponent of participative management. [Massie; Koontz & O'Donnell] As the economy has shifted in focus from industrial production to service occupations, the theories of motivation have also changed accordingly.

## Intrinsic Motivation

To those who believe strongly in the power of intrinsic rewards, adding extrinsic rewards is unnecessary and probably harmful. *In Punished by Rewards: The Trouble with Gold Stars, Incentive Plans, A's, Praise, and Other Bribes*, Alfie Kohn reminds us that

...more and more researchers have come to recognize that we are beings who possess natural curiosity about ourselves and our environment, who search for and overcome challenges, who try to master skills and attain competence, and who seek to reach new levels of complexity in what we learn and do. This is more true of some people than others, of course, and in the presence of a threatening or deadening environment, any of us may retreat to a strategy of damage control and minimal effort. But in general we act on the environment as much as we are acted on by it, and we do not do so simply in order to receive a reward. [ 25]

Many others have found that workers have an intrinsic motivation and desire to do a good job. Higher level needs for self-actualization are desirable in the workplace, but often remain unmet. Deming notes that pay is not a motivator. Scholtes finds performance evaluation an exercise in futility. Kohn states that “[t]he evidence shows that if anything deserves to be called natural, it is the tendency to seek optimal challenge, to struggle to make sense of the world, to fool around with unfamiliar ideas. Human beings are inclined to push themselves to succeed at something (moderately) difficult.” [66]

Kohn believes that reward systems interfere with these natural feelings. As a result, such systems are all ineffective at best, and often do substantial damage. Reward systems reduce intrinsic motivation, devalue the work being rewarded, are seen as controlling behavior, limit collaboration, and discourage risk-taking. Using reward systems acknowledges one of the premises of behaviorism—the belief that we can get others to do what we want by promising a reward (i.e., positive reinforcement). Since this “is fundamentally a means of controlling people, it is by its nature inimical to democracy, critical questioning, and the free exchange of ideas among equal participants.” [30]

When rewards are offered, the activity being rewarded loses value. “Do this and you get that” reduces the value of the “this.” Employees may wonder—If the job were interesting enough or important enough to do on its own, why would they be offering this reward? The very fact that a reward is offered reduces the person’s intrinsic motivation to do this less interesting and less valuable task. Since the purpose of the reward system is to control behavior, it is not without reason that rewards are often perceived as being controlling. Perceiving that others want to control our behavior tends to make us fight that control and attempt to retain our autonomy. Rewards make teamwork and collaboration more difficult. We are less likely to take problems to a supervisor who is considering us for a reward. We may find it difficult to work on a team if we are eligible for individual awards, and teams may find it difficult to collaborate with other teams if there are team awards. Risk-taking may become more difficult when we are working to get a reward. Our goal may be to get the reward in the easiest way, using no more effort than necessary. The task may be seen as the roadblock on the way to the reward. As one psychologist read the available research, people who are offered rewards tend to choose easier tasks, are less efficient in using the information available to solve novel problems, and tend to be answer-oriented and more illogical in their problem-solving

strategies. They seem to work harder and produce more activity, but the activity is of a lower quality, contains more errors, and is more stereotyped and less creative than the work of comparable nonrewarded subjects working on the same problems. [48]

Kohn also finds that "...there is no question that intrinsic motivation is often corroded by circumstances other than receiving rewards, such as when we are

Threatened

Watched

Expecting to be evaluated

Forced to work under deadline

Ordered around

Competing against other people." [79]

Praise is particularly difficult. It can easily have the same negative effects as other rewards. Kohn notes "...the most notable aspect of a positive judgment is not that it is positive but that it is a judgment." [102] For praise to be effective, it should increase self-determination by helping the person to have an increased sense of control and should increase intrinsic motivation by creating the conditions for the person to become more deeply involved. [106] He offers four guidelines:

Don't praise people, only what people do.

Make praise as specific as possible.

Avoid phony praise.

Avoid praise that sets up competition. [108]

"Even managers who are sincere about providing genuine choice to employees may handicap such programs by hanging on to the premises and practices of behaviorism. This residual commitment manifests itself in two ways: offering employees the chance to make decisions as a reward for doing something else, and offering some other inducement for taking part in a participative management program." [196]

If a particular action (or inaction) is a problem, it is usually ineffective to try to solve it by using rewards. A reward system often allows managers to overlook the reason why the problem existed in the first place. Why didn't the employees naturally carry out the task in the manner or to the degree desired? If the reason can be discerned and corrected, the work will be accomplished through intrinsic motivation, and rewards will not be necessary.

Kohn has also observed that research suggests that rewards succeed only at securing temporary compliance. Once the rewards run out, people revert to their old behaviors. Rewards do not create an enduring commitment to any value or action. “As for productivity, at least two dozen studies over the last three decades have conclusively shown that people who expect to receive a reward for completing a task successfully simply do not perform as well as those who expect no reward at all....In general, the more cognitive sophistication and open-ended thinking that was required, the worse people performed when working for a reward.” [Kohn, HBR]

Since rewards are not effective in building intrinsic motivation for better job performance and instead tend to destroy such motivation, Kohn offers a number of suggestions to increase work performance (quality, output) on the job:

Step One: Abolish Incentives. Pay people generously and equitably. Do your best to make sure they don’t feel exploited. Then *do everything in your power to help them put money out of their minds*. People could be paid on the basis of need, or everyone equally, or—in a less drastic departure from current practice—on the basis of seniority, special training or skills, time consuming nature of job, or complexity of job). Profit sharing may be appropriate, but should be done as Deming suggested, with all getting equal shares. [182]

Step Two: Reevaluate Evaluation. The purpose of evaluation should be to provide feedback, discuss problems, and identify needs in order to help each employee do a better job

- ◆ It is a two-way conversation, an opportunity to trade ideas and ask questions, not a series of judgments....
- ◆ It is a continuous process rather than an annual or quarterly event.
- ◆ It never involves any sort of relative ranking or competition.
- ◆ Most important, is utterly divorced from decisions about compensation. [185]

Step Three: Create the Conditions for Authentic Motivation. Alan S. Blinder, in *Paying for Productivity: A Look at the Evidence*, said, “Changing the way workers are *treated* may boost productivity more than changing the way they are *paid*.”

Kohn’s guidelines are to

Watch: Don’t put employees under surveillance; look for problems that need to be solved and help people solve them.

Listen: Attend seriously and respectfully to the concerns of workers and try to imagine how various situations look from their points of view.

Talk: Provide plenty of informational feedback. People need a chance to reflect on what they are doing right, to learn what needs improvement, and to discuss how to change.

Think: Avoid the use of extrinsic motivators, control, exhortation, or power. [187]

Other conditions that Kohn thinks important are collaboration, content, and choice. With regard to collaboration, he finds that on most tasks, especially those involving some degree of complexity and requiring some degree of ingenuity, people do better in well-functioning groups than they do on their own. Also, they are more likely to be excited about their work as a result of having an exchange of talent and resources and receiving the emotional sustenance provided by social support. Of course, simply putting people in groups does not ensure that cooperation will take place. Considerable effort and organizational commitment are required to make that happen. Instead, though, many managers simply fall back on the usual gimmick for getting people to do things: bribery. [188]

With respect to content, employees will not be motivated if what they are doing all day holds no interest for them. They need a chance to engage in meaningful work. Motivation is typically highest when the job offers an opportunity to learn new skills, to experience some variation in tasks, and to acquire and demonstrate confidence. [189] Herzberg has said that "...employees are motivated by their own inherent need to succeed at a challenging task. ...the manager should provide opportunities for people to achieve as they will become motivated." [190] Managers should let people work at the jobs they find most interesting. This can be done by restructuring jobs so they become more interesting to more people.

With respect to choice, Kohn finds that people are most motivated when they participate in making decisions about organizational goals (and, of course, are given the necessary information and resources to do so). Even when those goals are determined by others, it is critical that employees be able to decide how best to reach them—i.e., that they hear from a supervisor, "Here's where we need to get; you decide how we get there." [193] And a review of 47 studies quantifying the extent to which participation in decision-making affected productivity and job satisfaction found a positive effect on both, regardless of the kind of work people did. [195] In some situations in which workers were unwilling to participate, most workers stayed away because they were "skeptical of the real importance of the program to the organization.... So-called participative programs that merely make employees feel good but don't actually change the power relationships in the workplace probably have not actually increased the amount of the employees' responsibility." [196]

Some jobs are more interesting than others. For those that are inherently interesting, Kohn notes that “Incentives will have a detrimental effect on performance when two conditions are present: First, when the task is interesting enough for subjects that the offer of incentives is a superfluous source of motivation; second, when the solution to the task is open-ended enough that the steps leading to a solution are not immediately obvious.” [47]

For the tasks that are unlikely to be intrinsically motivating, Kohn provides some guidance. The rule of thumb for getting people to internalize a commitment to working at them is to minimize the use of controlling strategies. He cites a three-pronged approach: First, imagine the way things look to the person doing the work and acknowledge candidly that it may not seem especially interesting. Second, offer a meaningful rationale for doing it anyway, pointing, perhaps, to the long-term benefits it offers or the way it contributes to some larger goal. Third, give the individual as much control as possible over how the work gets done. [90]

Kohn and many others recognize the importance of teams. However, he finds the use of rewards for teams to be no less damaging than rewards for individuals. The same is true regarding the practice of rewarding employees when they acquire new skills or participate in programs to improve the organization. [55 & 122]

But for people who must, or feel they must, continue to hand out rewards, it is possible to reduce the extent of the harm they do:

- Get rewards out of people’s faces.
- Offer rewards after the fact, as a surprise.
- Never turn the quest for them into a contest (no banquets, since most people will not be winners).
- Make them as similar as possible to the task.
- Give people as much choice as possible about how rewards are used.
- Try to immunize individuals against the motivation-killing effects of rewards by convincing employees that they find the task interesting, reminding them that they used to be interested in it, or training them to focus on what is intrinsically motivating about the task. [92]

Kohn also found that training and goal-setting programs had a far greater impact on productivity than did pay-for-performance plans. [Kohn, HBR] Intrinsic motivation is enhanced by interesting work, by the type of work, by learning new skills, by using one’s talents fully, and by making decisions. People are unhappy with work that lacks variety or challenge, has conflicts with co-workers or supervisors, or has too much



pressure. [131] As Deming and others have emphasized, incentive programs reduce the possibility that people will cooperate with each other. Rewards undermine interest "...incentive plans do not respond to the extrinsic orientation exhibited by some workers so much as they *create* this focus on financial factors." [141]

"Do rewards motivate people? Absolutely. They motivate people to get rewards." [67] The bottom line is that any approach that offers a reward for better performance is destined to be ineffective. [119] Bribes in the workplace simply can't work. [Kohn, HBR]

Saul Gellerman and William G. Hodgson find that many (if not most) achievers are motivated at least as much by pride or the desire to excel as they are by the hope of better pay. Some also claim that poor ratings tend to reduce the motivation of inferior performers. Views about compensation among comparably paid groups of professional workers depend less on actual individual salary levels than on the perceived fairness of the system for determining pay, reinforcing the claim that they were motivated more by professional pride than by money. One of them wrote in response to a survey question, "For me, the work ethic, my professional pride, and drive are stronger motivating factors than salary increases. But a poor salary increase could be a demotivator."

Gellerman and Hodgson found two main lessons in their research. First, motivation is more important than administrative convenience in establishing systems. Second, professional pride can be a powerful motivator and should not be discounted in considering how changes in performance appraisal and compensation systems will affect the productivity of knowledge workers. [Gellerman and Hodgson]

## Extrinsic Motivation

The strongest supporters of the need for extrinsic motivation tend to agree that intrinsic motivation is better, but they feel that there are cases in which intrinsic motivation is just not strong enough. In those cases, some other motivating reward must be found. A wide variety of such rewards have been tried; some of them are discussed in this section.

One of the most widely recognized authorities in the area of designing pay systems that will motivate desired behavior is Edward Lawler III, author of *Strategic Pay: Aligning Organizational Strategies and Pay Systems*. As research on individual job enrichment has shown, when jobs are designed in such a way that people can do a whole piece of work, have responsibility for performing the task, and get feedback on it, intrinsic motivation to perform is high. [93] Lawler says, however, that the vast majority of the literature on motivation strongly supports the view that rewards such as pay can have a significant impact. Study after study has shown that an effective pay system can increase the motivation of individuals to perform by as much as 40 percent. [13] Most surveys show that employees at all levels still think that people should be paid for their performance and that pay for performance is a valid principle for salary administration. [80] Evidence suggests that in order to be motivating, changes in pay ought to be 10 to 15

percent rather than the often-seen 2 to 6 percent. [17] As has been repeatedly stressed, for a pay system to affect motivation, a significant portion of the pay package must be performance-based—at least 5 percent—for it to make any difference at all. For pay to be a significant motivator, however, the amount that should be at risk is probably closer to 10 to 20 percent.[202] The major reason for the popularity of merit pay is the belief that pay can motivate improved job performance and increase organizational effectiveness. As was noted earlier, research evidence clearly shows that pay can be a motivator when (1) it is important to employees and (2) it is tied to performance. [70]

The starting point for designing a reward system needs to be the strategic agenda of the organization. Only after the organization has decided on its approach to gaining competitive advantage can it talk about the specifics of its reward system. [13] Performance measures depend on the strategy and must be put in place. [14]

Lawler finds that rewards that are publicized tend to be valued much more than those that are not. [17] However, since the highly-valued Nobel prize, with a highly credible selection process, is viewed as unobtainable by so many, it does not motivate them. [20]

Most individuals quickly decide that they deserve whatever pay rate they receive and do not try to perform better in order to justify it... it is the anticipation of high pay that is motivating. Thus an organization that pays well will not necessarily have a highly motivated work force. [26] Changes in pay practices are often difficult to implement, because individuals who have stayed with any organization have done so in part because they like the reward system. Since the new reward system practices represent a whole new set of rules about how the game will be played, they can be extremely threatening to individuals who have been winners under the old rules. [33] Incentive plans often set up an adversarial relationship between those under the plan and those designing and administering it. In many cases the winner in this adversarial relationship is the employee. [61]

Thus, measuring and rewarding the performance of individuals in a team structure can be not only difficult but counterproductive, for it can detract from the sense of shared responsibility and accountability. At the very least, cooperation and teamwork must be measured in assigning merit pay to team members; otherwise, the reward system can pull a team apart. [77] Gain-sharing presupposes a participative system. [114] It combines a bonus plan with a participative approach to management; and typically measures controllable costs or units of output in calculating a bonus. Under the typical gain-sharing plan, financial gains in organizational performance are shared, on a formula basis, with all employees in a single plant or company location. A historical base period of performance is established as a benchmark for determining whether gains have occurred; hence the name “gain-sharing.” Again, only controllable costs are usually measured in computing the gain. Unless a major change takes place in the organization’s product or technology, the historical base stays the same during the plan’s entire history;

thus performance is always compared to that of the period before the institution of the plan. When performance is better than it was in the base period, a bonus pool is funded. When it falls short, no funding occurs. In the typical plan, about half of the bonus pool is paid out to the employees; the company keeps the rest. Payments are typically made on a monthly basis, with all employees getting the same percentage of their base pay. There are several types of gain-sharing plans, including Scanlon, Rucker (comprehensive set of cost measures), and Improshare (simple formulas that focus on the relationship between labor input and productivity). [110] The most important thing we know about gain-sharing plans is that they work. [115] In fact, the evidence suggests that they work about 75 percent of the time. [116]

In 1989, management of Wells Fargo Bank decided that the bank had had a good year and gave all employees a \$500 check for themselves and a \$35 coupon to be given to the colleague who had been most helpful to them. There is little chance that this kind of program affects motivation, because there is little chance that employees can influence whether or not a bonus is paid. The bonuses may have an impact on the culture, but this impact may not be positive: for instance, discretionary profit sharing may create unrealistic expectations about what will happen in the future. It may also reinforce the power of management and remind employees that they are dependent on management's "generosity." [124]

Job-based pay typically rests upon the foundations of a job evaluation system. This typically consists of a job description with the job factors weighted. Jobs are usually compared internally and externally, and the system is part of the bureaucratic organizational structure. Such systems receive lots of criticism. [135] When pay is based on subjective performance measures, little is done by management to create the perception it is truly based on performance, because employees do not trust subjective measures. [72]

Skill-based pay [153] starts with base pay for unskilled work, plus something (perhaps \$.50/hr) for each skill. In some systems, the employee must have four skills, which may have separate levels of complexity. Managers have to measure the skill levels of the workers. This system is often used in a technical ladder or for an apprenticeship in skilled trades. The effectiveness of skill-based pay is uncertain. [160] While it is flexible and involves self-management, it often leads to high pay rates and is marked by expensive training (e.g., lack of skill while learning new job), by skill assessment problems, by difficult market comparisons, and by problems associated with obsolete skills.

From a motivational perspective, a pay-for-performance plan that awards executive bonuses based on comparing the firm's performance with that of others in the industry is ideal. Relative performance is more under the organization's control than unadjusted economic performance would be. [194]

Research on participation strongly suggests that involving individuals in the design of systems that will affect them has definite advantages. Perhaps the most important advantage has to do with their acceptance of a system and their commitment to seeing that it operates effectively. A participative decision-making process also helps employees understand the decisions. Finally, the evidence on participative decision-making suggests that the decisions may change for the better when a broad range of individuals participate. [222] The principal risks in participation revolve around how much individuals will be motivated by narrow self-interest considerations. [224] Team-building activities should recognize the self-interest factor and discuss and fully clarify it. A participative development process that uses a task force is more likely to lead to a high level of acceptance and trust of the resulting system. [119] The team should be a diagonal-slice task force including all levels and all functions. The key factor for success is whether the individuals on the task force feel that their recommendations will be given serious consideration—i.e., that they will be rejected only if there is a clear and glaring flaw in them. [226]

A number of companies are focusing on the loyalty, security, and commitment of their employees. Recently cited for such efforts were Ford Motor, Boeing, Monsanto, America West Airlines, and Xerox. Towers Perrin found that employers now believe that they “can’t sustain performance without an engaged, committed work force.” They are trying to ease employee anxiety and win loyalty back by using corporate “career security” programs, packaged as enhanced training or new efforts to help white-collar workers adapt to change instead of leaving. Other companies are changing pay plans to give employees a bigger stake in the company’s success. America West paid every participant in its “AwardPay” plan a 10.25 percent bonus. United Technologies Corp.’s Pratt & Whitney jet engine unit recently offered bonuses and a slice of any profit gains to some 1,500 nonunion employees if they agreed to embrace efforts to boost efficiency, including extensive training and broader job responsibilities. Profit-sharing checks will likely be “north of \$1,500 a person.” [White & Lublin]

## DIFFICULTIES WITH EMPLOYEE EVALUATION

Intrinsic motivation does not require an employee performance evaluation system, but rewards and recognition based on extrinsic motivation do. Some method of employee evaluation must be used to separate those who deserve the rewards from those who do not. However, employee performance evaluation is not easy to accomplish. In a 1992 report on The Survey of Federal Employees (SOFE), representing the responses of 32,000 out of 57,000 employees included in a national survey, fewer than one-fifth of the respondents agreed that the appraisal system motivates employees to perform well, and only half believed that they would receive a pay raise or cash award if they performed exceptionally well. [Bates]

Employee performance evaluations have long been regarded as ineffective and unhelpful. Deming dismissed such evaluations as a “deadly disease.” A 1995 survey indicated that 44 percent of 218 companies with evaluation systems had changed their systems in the previous 2 years and that another 29 percent expected to do so shortly. More and more companies are realizing that once-a-year reviews don’t work well. Many firms require managers to review employees formally at least twice a year, and to informally talk with them even more often about how they are doing. A study found that from 1990 to 1992, in financial measures such as return on equity, total shareholder return, sales growth and cash flow, companies with year-round evaluation systems significantly outperformed competitors lacking such systems. The study also indicated that a company’s financial results strengthened considerably within 2 years of adopting a year-round system. [Schellhardt]

At Hunt Oil Co. of Dallas, which has done away with written evaluation forms, managers sit down with employees and ask simple questions to determine what employees think they have accomplished and what they expect to accomplish in the coming year. Only 1 percent to 2 percent of employees are written up for poor performance. “If you just concentrate on goal setting and giving feedback constantly, you get better performance all the time.” Companies are better off teaching everyone how to give and receive constructive feedback. [Schellhardt]

In recent years, a growing number of companies, especially those with employees working in teams, have changed their evaluation systems to include so-called “360-degree” (or multirater review) feedback. Under this system, employees are rated by their immediate supervisor and also by team members, subordinates, and even customers. A 1995 study of 218 companies, performed by William M. Mercer, found that about 40 percent of them made some use of nontraditional evaluators, up from 12 percent in a 1992 study by another firm. But even the 360-degree system sparks criticism. Frequently, employees can choose their friends to provide feedback—so, how truthful is the process? It may become a popularity contest, filled with rabid politics and creating widespread dissatisfaction. People given poor or average performance ratings retaliate and “label the truth-tellers ‘snitches.’” Some fear the 360-degree assessments will become a passing fad with some organizations already abandoning them. It can backfire if employees aren’t carefully prepared to get feedback; some workers worry that a company will use the system simply to weed out poor performers. Far too many firms focus too much on scoring employees and too little on developing them.” [Schellhardt]

Performance measures can result in high levels of anxiety. Theresa Welbourne, a business professor at Cornell University, the alma mater of Bob Felton, the founder of Indus Group, wanted to study the company’s mood before, during, and after a stock offering. She developed an electronic reporting system to record confidentially the “pulse” of every employee on a 10-point scale—an indication of how frazzled or relaxed the company was. The combined pulse rate climbed as the offering approached and employees

(many of them shareholders) eagerly awaited the market's valuation of the company. But after the offering was completed, the pulse rate slowed, alerting Felton to the need to fight complacency. A strong inverse correlation exists, she has found, between the pulse rate and the Indus stock price. Even a slight decline in the stock price creates a measurable anxiety that pressures people into intensifying their work habits. "This is not a good thing for Indus," she warned Felton. He emphasized to the staff that it is foolish to fixate on short-term price fluctuations. [Petzinger, 1997]

## USE TEAMS IN ANY CASE

Jon R. Katzenbach and Douglas K. Smith, writing on "The Discipline of Teams," found that there is a basic discipline that makes teams work. They also found that teams and good performance are inseparable—you cannot have one without the other. Groups do not become teams simply because that is what someone calls them. The entire work force of any large and complex organization is never a team.

Katzenbach and Smith distinguish between teams and other forms of working groups. That distinction turns on performance results. A working group's performance is a function of what its members do as individuals. The best working groups come together to share information, perspectives, and insights; to make decisions that help each person do his or her job better; and to reinforce individual performance standards. A team's performance includes both individual results and what the authors call "collective work-products." Teams rely on more than group discussion, debate, and decision; and on more than sharing information and best-practice performance standards. Teams produce discrete work-products through the collective contributions of their members—a team is more than the sum of its parts. "A team is a small number of people with complementary skills who are committed to a common purpose, set of performance goals, and approach for which they hold themselves mutually accountable."

Performance goals are compelling. They are symbols of accomplishment that motivate and energize. Positive reinforcement works as well in a team context as elsewhere—"Giving out gold stars." There are many ways to recognize and reward team performance beyond direct compensation, from having a senior executive speak directly to the team about the urgency of its mission to using awards to recognize contributions. Ultimately, however, the satisfaction in its own performance becomes the team's most cherished reward. [Katzenbach and Smith]

Lawrence Rothstein finds that self-managed teams are capable of making and implementing their decisions, and they are held accountable for results. Teams pass through several stages before they can manage themselves. A team begins simply as a collection of individuals. It must learn how to work together, make decisions, resolve conflicts, and delegate responsibilities. In the next stage, as team effort starts to pay off, members usually become excited and enthusiastic. Nevertheless, the team's identity remains in an

embryonic phase. If the team runs into obstacles, members can quickly become disillusioned. But with proper guidance and support, the team moves on to self-management. At this stage, team members support and encourage one another, believe fully in their recommendations, work together to overcome obstacles, and effectively make decisions and take action. [Rothstein]

## Team Incentives

The heavy demands on team members coupled with insufficient team compensation results in dissatisfaction at lower levels of the organization. As the team concept spreads, organizations are finding that their reward systems—pay, promotions, career paths—don't support it. The satisfaction one gets from working with others to achieve common goals is, of course, one of the intrinsic rewards of teamwork. However, this satisfaction should be reinforced with external rewards. Those rewards can range from special lunches and ceremonies to acknowledge extraordinary effort, and extra pay for learning new skills, to gain-sharing programs in which all employees receive bonuses when the company reaches preset goals. [O'Dell]

The life span of a team, its purpose, and the jobs of its members all affect the choice of rewards. For a temporary team, sometimes simple public recognition of a task force's effort through praise in memos to top management or mention in the company newsletter is enough. But stronger incentives are needed for teams with a longer life, and for employee-involvement and problem-solving groups. Such incentives could include adopting the team's suggestion system or rewarding a successful problem-solving team with its own budget to implement ideas. At Tennessee Eastman, a natural work group that solves a significant problem earns praise from several levels of management, as determined by a formal schedule of rewards, and the members are entitled to a photo of their group with the Eastman Kodak race car. When a group attains a significant milestone or quality level, the members are receive a catered lunch. [O'Dell]

Most merit plans are a zero-sum game, pitting employees against one another for a share of the pool of merit pay—hardly designed to promote teamwork. Performance appraisal is a notoriously ineffective and generally disliked basis for rewarding employees. [O'Dell]

While people like to be a part of a good team, often that is not enough. Organizations need a way to recognize and reward outstanding individual performance, to create heroes for others to emulate. All of the issues and options on rewarding teamwork frustrate some managers (well-paid themselves) who would like to believe that people will forget about money and work for the love of excellence. They point to the Japanese as models for the strong, self-motivated workers they want. The Japanese encourage employees to identify with the company's results. This approach reinforces teamwork and security within the folds of the mother organization, and the employees' well-founded trust that when their organization prospers, they will, too. [O'Dell]

As firms move toward team-based operations at all levels, they need reward systems that mirror and support this way of working, rather than thwart it.

- First, examine the performance-appraisal and merit-pay systems to make sure that they are not undermining teamwork. Include measures of cooperation within and across teams, as well as other quality indicators.
- Second, ensure that rewards fit the purpose, authority, and life span of a team.
- Next, pay attention to career-path issues as well as to pay.
- Then, try to design systems, such as gain-sharing, that reward cooperation among teams. Avoid “haves and have-nots”—such as having a team with no special rewards working side-by-side with one that does.
- Finally, it is a pipe dream to believe that rewards of any kind will eliminate the hassles of managing people. [O’Dell]

## Team Recognition in a TQM Environment

The use of teams in total quality management (TQM) organizations is common. However, issues of evaluating teams versus individuals, and of ways to establish the reward system, must be resolved. Stephen Knouse, author of *The Reward and Recognition Process in Total Quality Management*, discusses these topics. Number 12 of Deming’s 14 quality management points is to “Remove barriers that rob people of pride of work.” In addition to poor training, faulty machines, and low-quality raw materials, pay-for-performance mechanisms focus employees on achieving individual pay raises while simultaneously diverting them from work quality. [7] The third of Deming’s Seven Deadly Diseases is *Merit rating and evaluation of individual performance*. One of the most controversial of Deming’s ideas is that the U.S. emphasis on individual performance appraisal, merit pay, management by objectives (MBO), and pay-for-performance is bad because these devices emphasize individual gain at the expense of attaining the firm’s goals. Individuals are rewarded for maintaining the system rather than trying to improve it. The emphasis is on quantity produced rather than quality. Further, Deming believed that fair ratings are impossible because of supervisor biases, worker competition, and organizational politics. In this environment, short-term thinking proliferates and long-term planning suffers. [8]

Deming advocated that everyone in the group should be paid the same. Others advocate more of a middle ground. Individual workers should be evaluated on quality accomplishments and contribution to the team. Teams should be evaluated on quality improvements and teamwork. Managers should be evaluated on leadership of the quality effort and customer satisfaction.



The functions of reward are to improve TQM behaviors, improve TQM culture, and be a visible statement of organizational values. [18]

The principles for an effective reward system are the following:

- The Reward Is Valued—cash, plaques, name in company newsletter, public recognition in award ceremonies.
- The System Is Simple to Understand.
- Performance Standards Are Within the Control of the Team—able to be reached.
- Supervisors Are Motivated to Maintain the System.
- Employees Have Input into Installing the System.
- There Is Open Communication. [19]

Knouse describes several types of rewards. [20] Cash awards can be in the form of bonuses, gain-sharing, or profit sharing. Gain-sharing is more focused on having specific TQM teams make improvement suggestions for which they are then allowed a percentage of the resulting cost savings. Not all teams participate. Profit sharing, on the other hand, is more general. The company gives percentage shares of profits to all individuals or teams equally. Different types of nonmonetary rewards—symbols (decals and signs), things people use (pens, calculators, tie clasps, clocks), and other comparable forms of recognition—are often used.

Judith Mower, a human resources expert, suggests that team rewards—where all team members receive rewards—produce the best team performance. She suggests that rewards supporting rather than detracting from intrinsic motivation should be considered, that they should be given throughout a project's life, and that the most effective reward is one that the team invents for itself.

The process of giving team rewards is generally implemented when TQM has become firmly implanted in the organization. At that point teams are functioning well in problem solving and continuous process improvement. During TQM implementation, the organizational reward structure may progress through many phases—first, traditional pay for performance, such as merit pay; then, individual and key contributor incentives; next, gain-sharing and skill-based pay; and finally, team rewards.

Awards are sometimes given to teams in the areas of Excellence, Initiative, Effort, or Teamwork. Recognition may include news articles, family outings, team presentations, conference trips, or items with the team logo. [20] Knouse summarizes issues of recognition as follows:

### Functions of Recognition

- Indicator of achievement
- Feedback
- Shows the organization's appreciation for effort [26]

### Principles for Recognition Systems

- Recognition should be immediate
- Recognition should be personal
- Recognition is not compensation
- Employees should believe recognition is not based on luck
- Recognition systems should not create winners and losers
- Recognition should be given for efforts, not just attainments
- Employees should participate in recognition programs [27]

### Types of recognition

- Company Awards
- Team-Managed Awards
- Customer Awards [28]

The reward and recognition team is a permanent quality team established by the steering committee to manage the reward and recognition process. [130] The purpose of the reward and recognition team should be continuous improvement of the reward and recognition process. The team's membership should consist of all the major stakeholders. Its duties are to analyze and monitor the reward and recognition process, identify opportunities for improvement and problem areas, and benchmark other organizations.

Possible barriers to effective reward and recognition include time, cost, cultural resistance to change, timing of change, merging of different cultures, hokey recognition programs, and rewarding TQM practices rather than customer needs. [139]

## Individual Rewards Within Teams

Heneman and von Hippel find that problems occur when the system rewards low and high performers in the team equally. The high performers eventually withdraw. The authors discuss using multiple sources for ratings (team members, customers, and individuals) and group-based reward systems, such as team-based pay, gain-sharing, and goal-sharing. The purpose of having individual rewards within teams is to reduce social loafing or free riders, so that high performers will not withdraw from the group. Another reason why some may withdraw is that they feel that their individual contributions do not really affect the group's performance. Peer pressure may resolve some of the problems but may also create animosity.

The authors recommend rewarding employees for behaviors consistent with the team's norms. A team mental model is a shared set of values and beliefs. Individual performance is to be defined consistent with the team mental model. Team-based merit pay provides rewards on the basis of an individual's contributions to the team. Team leaders and members rate each member's contribution to the attainment of team goals, effectiveness of communication, cooperation, and attendance and timeliness at team meetings.

Multiple evaluators are to be used: job incumbents, team leaders, and peers. Team leaders should coordinate the process by gathering the ratings, weighting the information, and providing feedback, including pay increase decisions. The system should give greater weight to ratings assigned by individuals with a better understanding of the team mental model and more opportunity to see the job incumbent perform.

This system will provide pay raises to those who contribute the most to the team. Using team-based merit pay can serve as a transition toward the new pay based on employee empowerment. Team-based pay increases, developed by and evaluated with the help of employees, supplement increases based on traditional top-down ratings. Another approach couples team-based merit pay increases with group-based pay plans such as gain-sharing and goal-sharing.

Unfortunately, group-based pay plans sometimes create the opportunity for social loafing and a place for free riders to hide. Providing rewards for individual contributions to the team addresses this problem by increasing motivation for improved teamwork among all team members. [Heneman & von Hippel]

## EMPLOYEE CONTROL—IMPORTANT FOR ACCEPTANCE

Petzinger finds it amazing just how much employees know about their firm's operation. Equally amazing is the sense of belonging they experience at the rare companies in

which management acts on their cues. Mere symbols—a suggestion box, say, or special parking privileges for the employee of the month—accomplish nothing. Getting real ideas from employees demands buoyantly open-minded leadership and the eradication of intimidation. At Staples, Biering ordered supervisors out of their desks along the windows and scattered them among the cubicles of the employees they supervised. Bosses were told to conduct weekly meetings. An unusual recognition program was created in which peers nominate peers for exceptional customer service, a program whose structure encourages employees to seek out the best in one another. The prizes include trips to out-of-state Staples facilities where recipients study how work is conducted elsewhere in the company. Interestingly enough, it was employees themselves who suggested making this a reward. [Petzinger, 1996]

J.M. Smucker Co., the Ohio-based maker of jams and jellies, enlisted a team of 140 employees—7 percent of its work force—to devote nearly 50 percent of their time to a major strategy exercise for more than 6 months. “Instead of having just 12 minds working it, we really used the team of 140 as ambassadors to solicit input from all 2,000 employees,” says President Richard K. Smucker. “It gave us a broader perspective, and it brought to the surface a lot of people with special talents.” The company, which has struggled to grow in a mature market, now has a dozen viable initiatives that could double its \$635 million revenues over the next 5 years. [Byrne]

Finland’s Nokia Group had been exploding at a rate of 70 percent a year in the booming telecommunications business when it chose to involve 250 employees in a strategic review early last year. “By engaging more people, the ability to implement strategy becomes more viable,” says Chris Jackson, head of strategy development at Nokia. “We won a high degree of commitment by the process, and we ended up with lots of options we hadn’t looked at in the past.” [Byrne]

The manager of Johnsonville Sausage, Ralph Stayer, reports on efforts to let workers lead. First, the firm eliminated the annual across-the-board raise and substituted a pay-for-responsibility system. As people took on new duties—budgeting, for instance, or training—they earned additional base income. Second, the company instituted what it called a “company performance share,” a fixed percentage of pretax profits to be divided equally every 6 months among the employees. Above and beyond this are individual shares based on a performance-appraisal system designed and administered by a volunteer team of line production workers from various departments.

The firm set up an educational allowance for each person, to be used however the individual saw fit. In the beginning, some took cooking or sewing classes; a few took flying lessons. Over time, however, more and more of the employees focused on job-related training. Today more than 65 percent of all the people at Johnsonville are involved in some type of formal education.

Team leaders were supposed to function as communication links; however, they began to function like supervisors. The structure changed, but mindsets didn't. It was harder to alter people's expectations than Stayer had realized.

“Ralph Stayer's Guide to Improving Performance”

1. People want to be great. If they aren't, it's because management won't let them be.
2. Performance begins with each individual's expectations. Influence what people expect and you influence how people perform.
3. Expectations are driven partly by goals, vision, symbols, semantics, and partly by the context in which people work, that is by such things as compensation systems, production practices, and decision-making structures.
4. The actions of managers shape expectations.
5. Learning is a process, not a goal. Each new insight creates a new layer of potential insights.
6. The organization's results reflect me and my performance. [Stayer]

Researchers have found that most successful agencies take 5 to 10 years to develop and implement a truly sound performance-based reward system. The Oregon Department of Transportation, for example, allowed lower level employees to help design the measures they would have to perform under and then empowered them with broad flexibility in meeting performance “milestones.” [Riggle]

## CONCLUSIONS

Intrinsic motivation to reach the organization's goals is the preferred alternative. Its importance has been widely noted since the 1950s. Native curiosity, pride, and desire for craftsmanship are likely to be widespread in the workplace. Intrinsic motivation comes from the belief that the work is critical, is interesting, is challenging, and is within the employee's control. Intrinsic motivation can be enhanced by designing interesting jobs or by communicating to employees the importance of their jobs. For most of the HHS acquisition community, the inherent importance of their work in meeting mission goals—which are themselves widely regarded as important—should make this type of communication easier. The employees should feel that they have a substantial measure of control over their jobs. Recent efforts to increase the authority of the contracting officer and to empower employees in general should help develop and expand the feeling of job control and autonomy. Intrinsic motivation is enhanced by interesting work, by the type

of work, by learning new skills, by using one's talents fully, and by making decisions. People are unhappy with work that lacks variety or challenge, has conflicts with co-workers or supervisors, or has too much pressure.

For those who believe in the absolute superiority of intrinsic motivation and rewards, any attempt to provide extrinsic motivation and rewards is doomed to fail and may even cause harm. They believe that employees and managers will focus only on the extrinsic reward (e.g., achievement award) and will try to obtain it by doing the least amount of work at the lowest quality necessary to obtain it, driving out any intrinsic motivation that may have existed. Giving awards devalues the significance of the work itself—for instance, giving time off as a reward indicates that being away from the job is preferred to being on the job. Presenting awards in public ceremonies highlights the larger number of “losers” who did not receive the award, further demoralizing the work force. Kohn found that training and goal-setting programs had a far greater impact on productivity than did pay-for-performance plans.

For praise to be effective, it should increase self-determination by helping employees to have an increased sense of control, and should increase intrinsic motivation by creating the conditions for workers to become more deeply involved. In some situations in which people were unwilling to participate in teams, most stayed away because they were “skeptical of the real importance of the program to the organization.” A reward system often allows managers to overlook the reason for the existence of problems in the first place. Why didn't the employees naturally carry out the task in the manner or to the degree desired? If the reason can be discerned and corrected, the work will be accomplished through intrinsic motivation, and extrinsic rewards will not be necessary.

Some authors have concentrated entirely on intrinsic motivation and rewards. Others have noted the superiority of such motivators but have conceded the necessity for extrinsic rewards as well. The extrinsic awards most closely linked to intrinsic motivation are those related to training or job-related educational opportunities. Being selected to work on a team that is empowered to actually change the working environment can be a particularly fitting and effective form of recognition. But employees will be reluctant to spend time on efforts that they believe will have no effect.

Many other extrinsic rewards have been devised. Some, such as profit sharing, are inapplicable to the federal work force, but most others are made available to federal managers by statute and OPM regulations. Team members or individual employees may receive bonuses for achieving outstanding results. Team logo items or plaques, pins, or celebrations may also be used. The appendix provides several examples.

Most authors say that workers should be organized into teams and treated as equal members of the team. The team members should determine their goals and methods for reaching those goals. Deming and his TQM followers are most emphatic about the primacy of teams and stress that evaluations or rewards (if used at all) must be on a team-

wide basis. Continuing this approach, teams should not be placed in competition with each other. Since pay—once an acceptable level has been reached—is not a motivator, jobs should be structured to pay well (as federal government jobs often are), and pay should no longer be an item of concern to either employees or managers.

Contrary to Deming and others, some authors believe that individuals on teams must be eligible for individual rewards; otherwise, high performers will be discouraged by free riders and not put forth their full efforts.

## IMPLEMENTATION

We recommend that maximum effort be expended on enhancing the Department's ability to motivate its work force intrinsically. Jobs should be structured to be interesting, important, challenging, and within the control of the workers. The principle that the employees in the contracting offices are the government's business people or business brokers—expert in market research, contract competition, performance-based work statements, negotiation, cost/price analysis, acquisition streamlining and innovation, and monitoring contractor performance—should be stressed by managers at all levels, at every opportunity. The staff's concerns with collaboration, job content, and choice on the job must be continually addressed. The theories and studies on motivation over the past 50 years should be fully taken into account. In particular, managers should

- ☐ look for problems that need to be solved and help people solve them (don't put employees under surveillance);
- ☐ attend seriously and respectfully to the concerns of workers and try to imagine how various situations look from their points of view;
- ☐ provide plenty of feedback (people need a chance to reflect on what they are doing right, to learn what needs improvement, and to discuss how to change);
- ☐ avoid as much as possible the use of extrinsic motivators, control, exhortation, or power;
- ☐ link any extrinsic rewards and recognition to the Acquisition Balanced Scorecard (after it has been fully developed and accepted as a comprehensive, integrated measurement system), to help achieve the organization's critical goals;
- ☐ give any type of extrinsic reward as a surprise and apply it equally to everyone on the team;

relate any extrinsic rewards to the task—e.g., special training (in team-building and in the subject area), a trip to visit the best-in-class operation, or a budget to implement the team's solutions;

- let the team decide the type of reward and recognition that should be used;
- form teams whenever possible (the ability to produce superior results through a team effort, vice a collection of individual efforts, is widely accepted) and ensure that they should understand how their efforts fit into the Department's mission;
- avoid actions that appear to put employees who need to work together in competition with each other (e.g., any extrinsic rewards should be presented individually to the winner, avoiding the appearance of recognizing a few at the expense of many "losers"); and
- use employee teams to devise a system of rewards in accordance with the guidance provided by OMB, OPM, HHS, and management, as an effective low-risk implementation strategy.

## REFERENCES

- \_\_\_\_\_. FASA. Added section 313 to 41 U.S.C. by Federal Acquisition Streamlining Act (Public Law 103-355, Subtitle B, Section 5051). See also 41 U.S.C. 263 and note.
- \_\_\_\_\_. FCR. "Performance Incentives," *Federal Contracts Report*, Vol. 67, 21 April 1997, p. 467.
- \_\_\_\_\_. OPM. Information is in 5 CFR Part 451 Subpart A—Agency Awards (451.101) and B—Presidential Awards (451.203). It is based on the authority of 5 U.S.C. 4302, 4501-4509, and Executive Orders 11438 and 12828. More recent information was published in 60 FR 43946, August 22, 1995.
- James O. Bates, "Performance Enhancement and the Public Sector Myth," *PA Times*, vol. 13, No. 11, 1 November 1996, p. 12.
- John A. Byrne, "Strategic Planning," *Business Week*, 26 August 1996, pp. 46-52.
- Robert Frey, "Empowerment or Else," *Harvard Business Review*, September-October 1993, pp. 80-94.
- Saul W. Gellerman and William G. Hodgson, "Cyanamid's New Take on Performance Appraisal," *Harvard Business Review*, May-June 1988, pp. 36-41.
- Robert L. Heneman and Courtney von Hippel, "Balancing group and individual rewards: Rewarding individual contributions," *Compensation and Benefits Review*, Vol. 27, No. 4, July/August 1995, pp. 63-68.



Del Jones, "Congress to rehear comp-time proposal," *USA TODAY*, 6 January 1997, p. 9B.

Stephen B. Knouse, *The Reward and Recognition Process in Total Quality Management*, ASQC Quality Press, Milwaukee, 1995.

Alfie Kohn [HBR], "Why Incentive Plans Cannot Work," *Harvard Business Review*, September-October 1993, pp. 54-63.

Alfie Kohn, *Punished by Rewards: The Trouble with Gold Stars, Incentive Plans, A's, Praise, and Other Bribes*, Houghton Mifflin, New York, 1993.

Harold Koontz and Cyril O'Donnell, *Principles of Management: An Analysis of Managerial Functions*, McGraw-Hill, New York, 1972, pp. 526-529.

Edward L. Lawler, III, *Strategic Pay: Aligning Organizational Strategies and Pay Systems*, Jossey-Bass, San Francisco, 1990.

Joseph L. Massie, *Essentials of Management*, Prentice-Hall, Englewood Cliffs, N.J., pp. 135-138.

Carla O'Dell, "Team Play, Team Pay—New Ways of Keeping Score," *Across the Board*, Vol. 26, No. 11, November 1989, pp. 38-45.

Thomas Petzinger, Jr. [1996], "Jane Biering Tells Managers at Staples To Lead by Listening," The Front Lines, *Wall Street Journal*, 15 March 1996, p. B1.

Thomas Petzinger, Jr. [1997], "Bob Felton Hates Bureaucracy, Loves A Staff That Talks," The Front Lines, *Wall Street Journal*, 10 January 1997, p. B1.

James D. Riggle, "The Need to Improve Public Performance...and the Consequences for Failure to Do So," *PA Times*, Vol. 13, No. 11, 1 November 1996, p. 13.

Lawrence R. Rothstein, "The Empowerment Effort That Came Undone," *Harvard Business Review*, January-February 1995, pp. 20-31.

Timothy D. Schellhardt, "Annual Agony It's Time to Evaluate Your Work, and All Involved Are Groaning," *Wall Street Journal*, 19 November 1996, Vol. CCXXVIII, No. 100, pp. A1, A10.

Sue Shellenbarger, "Insurance Firm Cracks Tight Labor Market With Flexible Hours," WORK & FAMILY, *Wall Street Journal*, 13 November 1996, p. B1.

Ralph Stayer, "How I Learned to Let My Workers Lead," *Harvard Business Review*, November-December 1990, pp. 66-83.

Joseph B. White and Joann S. Lublin, "Some Companies Try to Rebuild Loyalty,"  
MANAGEMENT, *Wall Street Journal*, 27 September 1996, p. B1.

## APPENDIX: IMPLEMENTATION GUIDANCE— EXAMPLES FROM THE LITERATURE

This appendix summarizes a variety of extrinsic reward systems that have been used. Most of the systems were working well when their descriptions were published. This section of the appendix organizes the extrinsic reward systems by category. While some of them would apply to group reward and recognition for a short-term team working on a special project, most discuss a general, overall pay system. The appendix has five sections—overview of incentive pay, types of incentive pay, nonmonetary awards, monetary awards, and general pay systems.

### Overview of Incentive Pay

Watson Wyatt's 1996 survey, based on responses from 694 firms with a total of more than 5 million employees, found that 29 percent of those firms are now using incentive pay plans for hourly workers and non-management professionals. That is about three times the figure of a decade ago and, according to McAdams, represents the fastest-growing portion of the typical American paycheck. The portion of a worker's pay tied to performance measures varies widely from firm to firm, but according to a survey by the American Compensation Association, the average bonus paid last year under these plans was \$1,175 per worker—representing about 5 percent of total pay. For management employees, both the amounts and the percentages tend to be considerably higher. As for the companies themselves, they consider the incentive pay as money well spent, attributing a gain of \$2.60 in pretax profit for every \$1 paid in performance bonuses.

Approximate percentage of companies giving bonuses to:

	Hourly employees	Professional employees	Middle managers	Top managers
Group incentives	29%	34%	31%	24%
Discretionary bonuses	20%	32%	49%	56%
Stock options	4%	28%	28%	47%
Profit sharing	22%	23%	23%	23%
Spot recognition awards	50%	49%	49%	32%

**Source:** Steven Pearlstein, *Trendlines Incentives and Performance* "The Quiet Revolution: Linking Pay to the Bottom Line," *Washington Post*, No. 352, 21 November 1996, p. D1.

About one-third of companies have now implemented incentive pay plans tied to measures of individual and group performance, up from about 10 percent a decade ago.

Under the Mobil plan, devised with the help of Harvard Business School Professor Robert Kaplan, nonunion employees will see their base pay decline by as much as 10 percent, after adjustment for inflation, in the coming years. At the same time, they will be able to earn a bonus of up to 30 percent of pay based on a formula tied to the company's financial performance, the operational performance of their particular business unit, and the gains of their particular team or work group.

For any Mobil employee, this may mean that as many as 20 different measures go into calculating the annual performance bonus. And for each measure, the company performs the extra step of assigning a weight reflecting its relative importance and the "degree of difficulty" in achieving the goals established each year in each category. [Similarly, once the HHS balanced scorecard measures are fully developed and accepted as a comprehensive, integrated measurement system, they may be used to devise incentives.] In theory, an employee with a "below average" score would wind up with lower base pay and no bonus; for an "average" performance, the plan would provide a bonus that would merely make up for the lower base pay. Extraordinary performance—by an employee, the team, the division, and the corporation—could provide even the lowest level employee a bonus of up to 30 percent.

Steve Gross, a compensation expert with the Hay Group in Philadelphia, warns that if top managers don't constantly evaluate and change the items on the plans to reflect new business realities and strategies, incentives can lose their effect as employees begin to regard their bonuses as entitlements. [Pearlstein]

## Types of Incentive Pay

ECS introduced its annual Survey of Variable Pay Programs in 1990. The information in this summary came from the results of the survey's third edition and represents data from a total of 477 plans. [See box for definition of plans.] ECS looked at 13 possible goals and at the effectiveness of each plan in meeting those goals, on a 1-to-5 (high) scale. Those that could be identified and their overall average scores are as follows:

- Increase productivity (most common goal and highest overall score = 3.4)
- Reward achievement of specific financial goals = 3.1
- More closely link pay to performance = 3.4
- Provide an effective recruiting device = 3.0 to 3.3

## DEFINITIONS OF SURVEYED PLAN TYPES

For purposes of the survey, the eight types of plans surveyed were defined as follows:

**ANNUAL INCENTIVE OR BONUS.** These awards are based on the overall performance of the company and/or operating unit. Award size is also typically based on both some measurement of individual performance and the salary/salary grade of the individual recipient. (For profit-based plans that pay uniform awards to all eligible employees, please see definition of Current Cash Profit Sharing.)

**SMALL GROUP INCENTIVE.** This type of program typically provides for uniform awards to all members of a formally established group on the basis of their collective achievement of a predetermined objective. These plans generally are adopted to foster teamwork and typically are tied to a project of short or intermediate duration. One example of a typical application of this type of plan would be its use in the introduction of a new product.

**INDIVIDUAL INCENTIVE.** This type of program customizes both the performance criteria and the size of award to the individual employee and/or position. Both the performance standard and the potential payout are communicated to the employee before the start of the performance period. When these plans are adopted for nonmanagement employees, the performance criteria typically are related only to productivity and quality. When adopted for management employees, the performance standard usually encompasses some measure of the company's and/or operating unit's overall performance. The plan must entail the setting of specific objectives for individual employees/positions to be considered an individual incentive plan.

**GAIN-SHARING.** These plans are designed to measure the productivity of a unit and to share the value of any resulting productivity gains and/or cost savings between the company and participating employees. The gains generally are based on a predetermined formula and are shared uniformly among all covered employees. Three standard types of gain-sharing programs currently exist: Scanlon, Improshare, and Rucker. Most current plans, however, are customized and often borrow features from the three standard plans.

**SKILL-/KNOWLEDGE-BASED PAY.** Such programs are designed to reward nonmanagement employees for acquiring new or improving current job related skills. The system employs a series of salary steps for each covered position, with movement to the next higher step based on the acquisition of a new or enhanced skill or body of knowledge. Plans of this type typically cover professional and technical employees whose acquisition of multiple skills is necessary to the organization. They have recently been employed for nonexempt personnel, typically in production/processing environments where cross-training is desirable.

**SPOT AWARDS.** Such awards may also be called Instant Incentive or Recognition Awards. These are project- or task-oriented awards for which the recipient is nominated by either the supervisor or peers after completion of the undertaking being rewarded. The recipients may be either individuals or members of a team. Awards generally are discretionary, paid from a preestablished pool, and may be in the form of cash, merchandise, or symbolic awards such as plaques, certificates, or other status symbols. This category encompasses a wide variety of plans and programs, and ranges from substantial cash awards for outstanding achievements to symbolic recognition for attendance at training programs.

**KEY CONTRIBUTOR/KEY CONTRIBUTION.** These are cash or stock grants designed to retain key personnel by linking payout to their continued employment for a specified period of time. These programs typically involve the use of restricted cash or stock grants (to employees who normally would not be eligible for such awards) whereby the employee gains irrevocable rights only if some specified time period of continued employment is achieved.

**CURRENT CASH PROFIT SHARING.** Awards here are based on the overall financial performance of the company. Generally, awards are uniform in size for all eligible employees. Awards must be available (fully or in part) for cash distribution to eligible employees. Plans may be qualified or nonqualified. These are not plans that are designed to function largely as retirement/capital accumulation plans. (For profit-based plans

that vary awards on the basis of performance or salary/salary grade, please see definition of Annual Incentive or Bonus.)

Source: Eric D. Zitaner, "Variable Pay Programs: Tracking Their Direction," *Compensation & Benefits Review*, v 24, n 6, November/December 1992, pp. 8-16.

Foster healthy competition

Foster teamwork

Shift costs from fixed to variable = 3.3

Reduce cost = 2.7

Communicate business objectives = 3.3

Reward participation/empowerment in organizational culture = 3.2

Retain employees = 3.2

Encourage turnover of lowest-rated employees = 1.9 (by far the lowest overall score)

The effectiveness of three plans (gain-sharing, small-group incentive, and skill-/knowledge-based) are discussed in the survey.

## GAIN-SHARING PLANS

The 92.3 percent of participants reporting "increase productivity" as a goal of their gain-sharing plan made this the most commonly reported goal for any of the eight plan types surveyed, and the 3.7 effectiveness rating for achieving this goal, although equaled by small group incentives, was not surpassed by any other plan.

For four out of five goals, the effectiveness ratings of gain-sharing plans exceeded the overall effectiveness index, with the 3.9 index recorded for "more closely link pay to performance" equalling the highest effectiveness rating achieved in the analyses.

Interestingly, because many gain-sharing plans are based on reductions in the average cost of production per unit, "cost reduction" did not appear as one of the five most frequently reported goals of gain-sharing plans. It was, however, the sixth most commonly reported goal of these plans and achieved an effectiveness index of 3.2, 0.5 points above the overall rating.

## SMALL-GROUP INCENTIVE PLANS

- Four of the five most frequently reported goals for small-group incentive plans were reported by 60 percent or more of companies. For all of these goals, the plan-specific effectiveness index exceeded the overall effectiveness index.
- “Increase productivity,” an objective identified by four of five companies with small group plans, achieved an effectiveness index of 3.7, tying gain-sharing plans for the highest plan-specific effectiveness rating for this goal.
- No other plan scored as well for the goal “communicate business objectives,” with these plans achieving a 3.7 effectiveness index, 0.4 points above the overall index.

## SKILL-/KNOWLEDGE-BASED PAY PLANS

Skill-/knowledge-based pay plans were generally more successful than the norm for four of the five most commonly reported objectives of these plans. For the remaining objective, “provide an effective recruiting device,” the effectiveness index of these plans fell considerably short of the other plan types (2.6 as compared with 3.0 overall).

For the objective “reward participation/empowerment in organizational culture,” a feature common to almost all of the growing number of total quality management programs being adopted, this type of plan scored higher than any other, with an effectiveness index of 3.7, 0.5 points above the overall average. [Zitner]

## Nonmonetary Awards

### NON-TRADITIONAL RECOGNITION

Some companies are using non-traditional approaches to recognition. FirstMerit, a Cleveland bank, has the FirstHonors program, which includes a tent with dinner, dancing, and a private viewing of the Rock and Roll Hall of Fame, plus three shares of stock worth about \$90. A recent Towers Perrin survey found that more than half of the 750 U.S. companies surveyed had broad-based recognition programs. Cash awards remain prevalent, but publicity-oriented rewards are a way to create more role models for other workers, the survey found. [McEnaney]

At its core, the FirstHonors program encourages employees to recognize one another for good work throughout the year. Every employee is given a pad of FirstHonors thank-you notes and urged to write a complimentary message to those who help them get the job done. The purpose is to improve relationships among employees and to let workers publicly display their accolades. The notes can be seen hanging throughout

FirstMerit cubicles and walls. “I don’t think enough of this happens in the workplace,” said Cochran, as he flipped through his own stack of thank-you notes. “It makes a difference in how you approach your work.” [McEnaney]

Employees who want an invitation to the annual gala are nominated throughout the year. Sales personnel, including loan officers, bank managers, and private banking managers, must meet certain financial goals. Other employees, including tellers, secretarial and support staffs, and operations people, are nominated for service awards by their peers and supervisors. Employees say the program is a plus. [McEnaney]

KeyCorp’s Applause program employs a similar strategy. The Cleveland bank company’s 30,000 workers not only are encouraged to share thank-you notes, but managers can dole out gift certificates to a catalogue of goodies ranging from beach chairs to golf bags to clocks, all emblazoned with the KeyCorp logo. A Command Performance award is handed out to the company’s top 10 employees, each of whom gets a 3-day stay at the Ritz-Carlton in Cleveland and a \$1,500 cash bonus. [McEnaney]

Still, some experts warn that there are pitfalls to such programs. Consultant Dick Thomas of the Boston Consulting Group suggests that managers ask employees what they might like—sit in your chair for a week, a bonus, take off a week. [McEnaney]

The key to success in any reward program, experts say, is consistency. “Recognition should be ongoing and it should be consistent,” said Jacques Murphy, senior vice president of the Gallup Organization. “You need to build a culture of it that when somebody goes out of the way, you need to have an avenue to say, ‘Good job.’” [McEnaney]

## FLEX TIME

The information systems unit of St. Paul Company, a big insurer not known as a high-paying employer, has near zero turnover among information systems workers, compared with roughly 15 percent to 20 percent elsewhere. All staff employees have access to alternative schedules, providing they can show that the change would work well for bosses, customers, and co-workers. One programmer told a headhunter recently that any new employer would have to offer him \$10,000 a year more to compensate for the loss of a compressed work week.

Some typical problems with flexible time systems, and some solutions, are these:

The entitlement mentality: Some employees assumed in the past that flexibility gave them the right, forever, to work the schedule of their choice. So a volunteer employee committee, working with Paul Rupert, a flexibility consultant with Boston-based Work/Family Directions, wrote a new plan saying employees have to “give flexibility to get flexibility.” Employees asked, ‘Now you’re saying, more is expected of me?’ “Our answer is, ‘Yes, more is expected of you.’”



- The ghost-town syndrome: The committee ended core days, so more are taking midweek days off.
- The fairness problem: The answer was a work arrangement application form that asks how any proposed change will help meet customer needs.
- Manager overload: Solved by using an on-line, time-off tracking system based on hours worked that reconciles schedules with the company benefits plan.
- Controlling poor performers: Bosses have found that having the new application form makes it easy to say “no” and apply pressure to “shape up.”

In 1997, St. Paul will roll out the plan to all of its 9,000 U.S. employees. [WSJ, 11/13/96]

## PRODUCTIVITY TRAINING

In fields like computer programming, an 8-to-1 difference between the productivity of stars and that of average workers has been reported. As one of the Bell Labs executives observed, “Ten to fifteen percent of our scientists and engineers are stars, while the vast majority are simply good, solid middle performers.” The real differences turn up in the strategic ways top performers do their jobs. Specific work strategies like taking initiative and networking make for star performance and are trainable.

The Bell engineers identified nine work strategies that do make a difference (in order of importance): taking initiative, networking, self-management, teamwork effectiveness, leadership, followership, perspective, show-and-tell, and organizational savvy. They then had training in each area. [Kelley and Caplan]

## ATTENDANCE AWARDS

A newsletter for employees of law firm Montgomery McCracken Walker & Rhoads, Philadelphia, honors office workers with perfect attendance as well as those with “distinguished attendance,” who missed less than two days. [WSJ, 7/25/96]

Some airlines pay their employees not to call in sick. Northwest Airlines awards a Corvette, Ford Explorer, or \$18,000 cash to eligible employees whose names are picked in a drawing. United Airlines offered prize-winning workers Jeeps last year, but “everyone opted for the cash.” But some unions complain that the incentives are unfair to legitimately ill workers. “People who are sick as a dog crawl on board hoping they’ll win a car.” [WSJ, 9/17/96]

## OTHER ISSUES

Sarah Cooper Associates, a Washington, D.C., event planner, keeps its employees working overtime by offering workers the use of an errand-runner one day a week. [WSJ, 10/29/96]

A danger in using nontraditional rewards is illustrated by Dogbert, who discusses the use of such gifts as logo-bearing T-shirts and belt buckles: "Rewards that have actual value, such as stock options or bonuses" can send "the wrong message. Employees might start thinking of themselves as merely paid help instead of the belt-buckle-owning 'family' you want them to be." [Farnham]

## Monetary Awards

### GOVERNMENT AGENCIES

One of the eight government agencies selected to pursue performance-based operations, the Defense Commissary Agency, has announced setting goals and offering cash performance rewards for employees who meet and exceed the goals. In the past, managers have been able to offer time off rewards for performance—e.g., a day off whenever a cashier checks \$10,000 in groceries. Commissaries and their departments (produce, meat, and grocery) will compete against each other within their regions. A quarterly cash bonus of \$250 will be given to the department that shows the highest percentage increase in sales. "The awards go to the managers of winning departments and they have the option of splitting it with department employees. Yearly awards for overall performance amount to \$1,000.... The criteria for receiving an incentive award is largely based on percentage of increase in sales, but other factors are also considered. The region director, deputy director and zone managers will make the final decisions." [DCA]

As another example, the Veterans Affairs Medical Center in Philadelphia, has a number of individual awards and several group awards.<sup>1</sup> Groups may receive "Suggestion Awards" for submitting an idea that is adopted by management and that directly contributes to economy or efficiency or directly increases the effectiveness of government programs and missions. A "Special Contribution Award" may be granted to a group on the basis of a one-time contribution that was not necessarily a part of the performance plan but was connected with or related to official employment and was beneficial to the government. Examples might be creative efforts that result in an important contribution to the efficiency or economy of government operations, or attainment of a predetermined production or management goal within an announced timeframe. Awards can

---

<sup>1</sup> Beginning in FY97, OPM permits group performance evaluations in place of individual performance evaluations. Thus, team performance and awards are emphasized more than individual performance and rewards.

range from \$25 to \$1,000. A final example is the “Doughboy Award,” which recognizes a group of employees that performs in an exemplary manner under difficult or trying circumstances—in effect recognizing the group that succeeds “in the trenches.” [DVA]

## FINANCIAL INCENTIVES

Many corporations (68 percent) now offer financial incentives—bonuses, stock options, and others—to all of their salaried employees, up from 47 percent in 1990. Hannon finds that pay-for-performance plans are good business. The most widely used type of variable pay is the bonus, awarded by 24 percent of companies. Stock option plans have become prevalent. Companies reward employees who have acquired new professional skills—pay-for-knowledge plans. [Hannon]

Three-quarters of large and medium-sized companies use bonuses, team incentives, or stock ownership to boost productivity and profitability. “Some 85 percent to 90 percent of those companies will have variable-pay programs within the next five to seven years.” Firms now pay out far more in incentive compensation than in salary increases. This year, bonuses will average 6.3 percent of base salary. The average raise, on the other hand, will barely top inflation at 4.5 percent, down slightly from 4.6 percent in 1983. Twenty-one percent of U.S. companies will give bonuses only—and no annual raise—up from 14 percent in 1983. Seventy percent of companies rated their corporate profit-sharing plans as successful, on the basis of standards such as keeping costs down and boosting productivity. Some 68 percent of companies surveyed rated their small-group incentives as successful, and a full 84 percent indicated that their individual incentives were paying off. Pay-for-performance lets women compete on a level playing field.” [Hannon]

Again, the most widely used type of variable pay is the old-fashioned bonus, awarded by 24 percent of companies. What’s new is that more and more employees are allowed to participate, and there is an increasing tendency of employers to combine individual, group, and companywide programs into one giant bonus plan. Initially, two main measures are used: the performance of the entire company and the results of each person’s business unit. [Hannon]

Now a worker can boost her pay by as much as 25 percent, provided her division achieves the goals set by a committee of top managers: slashing inventories, boosting operating earnings, and bringing more new products to market. About 70 percent of her bonus is tied to whether her unit is successful. The remaining 30 percent of her bonus depends solely on her individual success, judged by a variety of factors ranging from her skills as a manager to her success in meeting financial targets. In this period she expects a bonus ranging from 10 percent to 15 percent of her base salary.

Bonuses can range from 15 percent of base pay at the \$45,000 level to 20 percent for employees earning \$100,000. Last year, AT&T, unlike Scott, started linking the biggest

piece of its bonus plan to overall corporate performance. The reason: to encourage different business sectors to pull together toward a common goal. In fact, about one-third of a manager's bonus can depend on corporate results.

Nearly one-quarter of the companies now offer stock option plans, compared with 19 percent in 1990. Such plans are increasingly being pushed down the corporate ladder, both as a low-cost way to reward employees for a job well done and as an incentive for staffers to stick with the company. This arrangement allows employees who have been store managers, pharmacists, or managers in the corporate offices for at least 2 years to buy stock equal to a certain percentage of their salaries once every 4 years. (The maximum = 10 percent, 2-year employees = 7.5 percent, new = 5 percent, new next year 2.5 percent; cycle starts over in 1996 and all are eligible.) The idea is to reward people who have worked there the longest with the most stock. [Hannon]

### The Newest Pay Plans

One method is to pay for acquiring new professional skills—pay-for-knowledge plans. Suppose an employee switches from marketing to sales training to customer service, or even to human resources, over the course of a career—with each new area, there is a corresponding jump in salary. Some 10 percent of the firms surveyed in a Conference Board study already have the program, and another 7 percent are considering one, up from 4 percent that were considering such a system in 1990. [Hannon]

Six percent of the businesses surveyed have implemented broadbanding (a pay system with a few broad categories instead of many discrete job classifications), and 35 percent are considering it. Steelcase replaced 29 different pay levels with four groups. The idea is to reward employees who move horizontally. Some fear this may backfire, that some workers will be frozen on the career ladder. [Hannon]

### TEAM PAY

Autonomous teams are what managers typically think of when they talk about “team concept” operations. Issues are how to pay employees for the expanded skills and responsibilities they shoulder, how to reward teams for ever-higher levels of performance, and how to reinforce cooperation among teams. [O'Dell]

These pay-for-knowledge-and-skill plans (PFKs) compensate an employee for the jobs he or she can do rather than on the employee's assignment for a given day. With more flexible, multiskilled employees, some firms have found that they need fewer employees—about 10 percent fewer. About 8 percent of manufacturing firms offer PFK, usually as part of a team concept. The approach is spreading in service organizations as well. An impressive 89 percent of these firms report that the plans have a very positive impact on performance. Managers report that these operations are, on average, about

30 percent more productive and 30 percent lower in cost than comparable locations not using team structures and PFK systems. [O'Dell]

Examples from O'Dell's research:

- The volume of work is up 33 percent, while reduced staffing needs have lowered costs by \$200,000 a year. The work is much more demanding, and employees have to be ready to take initiative for their own extensive learning. Potential problems: Paying for skills companies do not actually use, since they do not need that much flexibility or managers do not rotate the workers.
- Share the gains through base-pay increases, team incentives, or company-wide bonus systems such as gain-sharing. About 15 percent of firms have some sort of small-group bonus system.
- Team members can earn extra money, up to \$15,000 a year per person, through a bonus plan tied to costs and benefits. The team processes double the number of lease applications as under the old system, in much less time, and with better service. [O'Dell]

How to create cooperation among teams that have different reward systems? Establish a series of team objectives that complement one another, from the executive suite to the shop floor. Teams at the top have quality and earnings goals that translate into consistent performance goals for teams at each descending level. [O'Dell]

In one example, team bonuses were based on the volume of material that the team shipped. Production shot up, but so did conflict between teams. The team neglected machine maintenance, and quality suffered. Documenting production was time consuming, and the system was hurting company morale, so the firm switched plans. [O'Dell]

To reinforce teamwork, some distribute gain-sharing bonuses so that all employees receive the same amount. Most companies with gain-sharing now design formulas based on a family of measures. One uses seven measures to reward quality improvement. The targets are changed annually to reflect changing business conditions and priorities. The family of measures in the gain-sharing plan includes not only production criteria for rewarding team members, such as raw-material yield, paper yield, quality costs, and amount of waste scrap, but also administrative criteria, such as orders processed correctly and shipped on time. Customer satisfaction, which is measured by monthly and quarterly surveys and must be maintained or exceeded, is the basis for cash bonuses. [O'Dell] [The HHS balanced scorecard results may best be implemented through team participation and performance.]

One company has a three-tiered pay-for-performance plan for all employees that reflects individual, natural-work-group, and company-wide results, using a combined

score. Bonuses can reach 10 percent of pay. “Let the team decide,” urges Lawler. [O’Dell]

## PITFALLS

Some of the pitfalls in award and recognition have become a regular part of the comic pages and less-serious management advice books. In a review of *Dogbert’s Management Handbook* by Scott Adams, Alan Farnham in *Fortune*, says that Dogbert sinks his teeth into topics such as cash awards. Cash rewards do have a place, if used sparingly:

Cash rewards should be small enough to have no impact on company earnings but large enough so the employee won’t rip the check up, chew it until it becomes a paper-mache saliva ball, and spit it against the side of your head. Try \$500. Only a few superstars should qualify; otherwise, the value of the reward will be cheapened. You want employees to come in every morning and say, ‘I may be the worst employee in the company now, but if I work 18 hours a day I’ll have a 1 in 100 chance of winning \$250 in after-tax spending money! Helloooo, Monte Carlo! [Farnham]

## General Pay Systems

### A CASE STUDY OF A NEW PAY SYSTEM AND ORGANIZING TEAMS

The *Harvard Business Review* published a case study concerning a new type of pay system. The case study was discussed by four participants who analyzed a variety of motivational concepts. Michael Beer, a professor, most closely followed the intrinsic motivation precepts. He finds that people either work effectively in teams or they don’t. Pay is usually a distraction and it rarely improves teamwork. A prevailing mythology today holds that pay can be redesigned to motivate individuals to work differently. He says “That’s simply not true.” Pay is not the right tool to effect change. Telling people you are going to change the compensation system rallies them around compensation, when what you want them to do is rally around making teams work. Pay’s function is to create equity and fairness. It should attract people to an organization and keep them there. Pay should not be an active ingredient in promoting teamwork and motivating performance. Organizations should change how they work before changing how they pay.

Effective managers help teams succeed by addressing the entire organization’s performance objectives. They diagnose how teams operate, and they develop ways to improve them. The only justification for tinkering with pay occurs when the pay system itself is creating barriers to change. Workers resist formal changes such as pay redesign because such changes are perceived as representing final decisions about new roles and responsibilities that haven’t been accepted yet. Instead, change should be an organic process that evolves as people learn and adapt to the new work structure.

Most organizational changes are made without an effective diagnosis. People change the wrong things, because they fail to identify the root causes of the problem at hand. They should really be asking how well teams are working. If teams are not working, they should identify why and be prepared to examine their roles and the roles of their teams in creating the barriers. Is there even consensus at the top on the need for teams? Have managers identified how their roles will change if teams are to function effectively? Are they really prepared to change to teams?

Professor Donald Berwick also discusses the need for employees to participate in the improvement of work. Total quality comes not from contingencies set up by managers but from the native curiosity, pride, and desire for craftsmanship that are likely to be widespread in the workplace. The best-quality managers understand that celebration, recognition, and joy in good work are powerful motivators. Berwick discusses the poor use of numerical goals. If the firm wants its employees to move forward, it has to allow them to develop meaningful targets. Payment by the numbers invites expensive investments in internal gaming: managers and employees will play by the numbers instead of improving their methods. These results—and not the capabilities that create these results—will be rewarded. Berwick believes that there should be a system for rewarding new competencies and learning. He notes that one of the Baldrige Award winners has been enormously successful in using such tools as putting employee photos on the walls, giving gifts, having celebrations, and getting top management to acknowledge how well teams are doing.

The other two commentators are Maggie Coil, a vice president for compensation, and Tom Nyberg, a senior business systems specialist. Coil believes that teamwork, the primary goal, must dictate the form of compensation; formal aspects of compensation design should follow—not lead—the process. At-risk pay is a reasonable idea that has worked in many companies, but the fundamental principle for success relies on employees' seeing and understanding the relationship between their contributions and their pay. In many cases, entitlement mentality and paternalism still rule the roost. She suggests gain-sharing—linked very specifically to what individual work teams do.

Nyberg noted that people in the organization will not support a program they don't understand. He discussed a similar situation that involved a 12-member cross-functional team during a 3-month period of intense training, during which they met 3 times a week to read cases, study the plans of other corporations, and learn from compensation experts. There must be ownership by both the employees and the development team. The plan cannot be too complicated. There is danger that a change in plans will be viewed as a take-away of something to which the employees are entitled. A very gradual phase-in may be needed. [Ehrenfeld]

## ALTERNATIVE COMPENSATION

Alternative compensation approaches have become widespread enough to be the subject of newspaper articles. [*USA Today*] The old compensation system depended heavily on seniority, cost-of-living increases, and other gauges critics deride as entitlements. It's a change from paying people in fixed dollars to paying them in a portion of fixed dollars, plus a portion of variable dollars.—Sandra O'Neal, author of *Compensation Challenges and Changes*. The amount of “at risk” pay depends heavily on your job and on your job's ability to affect change in the company. A clerical worker might find about 6 percent of annual pay placed in the at-risk category, while a senior executive might risk 25 percent or more of salary, O'Neal says. Many low-level employees yearn for the predictability of the seniority and cost-of-living increases.

The new schemes go under the names of alternative pay, variable pay, strategic reward systems, new pay, etc. Most alternative pay programs affect raises and bonus pay—not the core or base wages. O'Neal estimates that about 30 percent of the nation's companies already have shifted some or all divisions from old pay to new pay.

Gain-sharing is an expanded version of profit sharing. Sears—in a pilot program in 30 stores—has a plan that for every dollar in excess of profit goal, the company will share 35 cents on the dollar evenly among the staff. Monthly or quarterly payouts are typical. A survey by Buck Consultants shows that 19 percent of Fortune 1000 companies have a gain-sharing plan and that another 13 percent are considering it.

Broadbanding is a strategy to reorganize employees into more segments within a job level, or band, allowing managers to advance employees without promoting them out of their jobs. Broadbanding is the fastest growing type of alternative pay strategy, says Buck Consultants. Almost 25 percent of companies surveyed use broadbanding, up from 18 percent in 1995 and 12 percent in 1994.

Team-based pay is marked by raises based on team performance. Just a little more than 11 percent are using team-based pay; 29 percent say they are considering it.

Lump-sum merit increases are another approach. The good news: You get your money up front. The bad news: Your base salary does not change. Lump-sum increases are the most popular variable-pay method in the Buck survey; 50.2 percent of companies use this method now.

Competency-based pay is the method most talked about, but least used. This radical reworking of wages would stop paying workers on the basis of their job titles and pay them instead on what they can do. Raises would be awarded for new skills acquired. Only 8 percent of companies with more than \$1 billion in annual revenue now employ a competency-based pay program, reports Harvard Business School's *Management Update*. But 78 percent say they plan to start within the next 2 years.



Towers Perrin's most recent research found that 58 percent of U.S. companies are re-viewing their current pay structure, questioning its focus and intent. More than 90 percent say the goal of any new pay structure will be to link wages more closely with the company business strategy. Jack Stack, chief executive of Springfield Remanufacturing in Springfield, Illinois, says "we needed to create a system where people can think, act and feel like owners." Now the company has a gain-sharing program, with specific goals outlined. Payouts come quarterly; as much as 18 percent of a worker's pay is at stake. The company defines a weakness—such as the high debt level the company carried in the late 1980s. Employees are told the goal: Wipe out this weakness.

Though new pay is a hot topic, many companies are still just testing it, by adding alternative pay programs on top of existing wage strategies. Only 20 percent of those surveyed have replaced merit and cost-of-living increases with alternative pay programs.

Hewitt Associates found companies reluctant to take a hard line when goals were missed. Some 85 percent of companies with variable pay plans paid even when goals were not attained. Does new pay work? Early survey data indicate that it does. A study by the Employment Policy Foundation reports that a program of gain-sharing, combined with employee involvement and suggestions, increased productivity by 13 percent. Proponents also see new pay as a way to avoid layoffs. "If you view payroll as a variable cost, rather than a fixed cost, you have more flexibility to make the cost structure more competitive," says Abosch. "It's a reward system used to create focus," says Jerry McAdams of Watson Wyatt. [*USA Today*]

## PAY-FOR-PERFORMANCE

Robert G. Eccles, in "The Performance Measurement Manifesto," notes that what gets measured gets attention, particularly when rewards are tied to the measures. What matters is how a company is doing compared with its current competitors, not with its own past. The new system should be aligned with the company's goals—to reward people in proportion to their performance on the measures that management has said truly matter. This is easier said than done. In many companies, the compensation system limits the amount and range of the salary increases, bonuses, and stock options that management can award.

In companies that practice pay-for-performance, compensation and other rewards are often tied fairly mechanically to a few key financial measures such as profitability and return on investment. Convincing managers that a newly implemented system is really going to be followed can be a hard sell. The president of one service company let each of his division general managers design the performance measures that were most appropriate for his or her particular business. Even so, the managers still felt that the bottom line was all that would matter when it came time for promotions and pay.

The difficulty of aligning incentives to performance is heightened by the fact that formulas for tying the two together are rarely effective. Formulas have the advantage of looking objective, and they spare managers the unpleasantness of having to conduct truly frank performance appraisals. But if the formula is simple and focuses on a few key variables, it inevitably leaves some important measures out. On the other hand, if the formula is complex and factors in all the variables that require attention, people are likely to find it confusing and may start to play games with the numbers. Moreover, the relative importance of the variables is certain to change more often—and faster—that the whole incentive system can change.

For these reasons, Eccles favors linking incentives strongly to performance but leaving managers free to determine their subordinates' rewards on the basis of all the relevant information, qualitative as well as quantitative. Then it is up to the manager to explain candidly to subordinates why they received what they did. For most managers, this will also entail learning to conduct effective performance appraisals, an indirect—and invaluable—benefit of overhauling the measurement system.

We are talking about a new philosophy that regards performance measurement as an ongoing, evolving process. [Eccles]

Some companies may adopt MBNA's policy of delivering employee paychecks in envelopes labeled "Brought to You by the Customer." However, they must also base the bonuses inside those envelopes on the incentives that enhance customer value and loyalty. [Reichheld]

## PROFIT SHARING

Robert Frey, the manager at Cin-Made composite can company, has written an article describing changes there. He says that behavioral change begets attitudinal change, not the other way around. If you force people's behavior to change, their attitudes will change as well. The company introduced the sharing of 30 percent of profits—half to hourly personnel, half to salaried personnel. It instituted a program of merit raises, with which about 75 percent of employees have been rewarded for acquiring competencies above and beyond their basic skills. Three times each year—on September 30, December 20, and March 30—every hourly worker gets a check for his or her equal share of the pretax profits from the previous fiscal year. For example, in the 1st year each worker received \$0.58 per standard hour worked. In the 2nd year there was no payout; in the 3rd, \$0.41 per standard hour worked; in the 4th, \$0.11; in the 5th, \$2.82; and the 6th through 10th years averaged \$2.62—a 36 percent increment to income. Frey reports that the effect has been electrifying. [Frey]

## PAY/PROFIT

There has been increasing interest in approaches that tie payouts to profits or measures of profitability. One approach is a deficit reserve, which involves the withholding of a portion of the employee's share of the gain-sharing pool.

Some use the terms "gain-sharing" and "variable pay" interchangeably. The former term is most often associated with employee involvement efforts, while the latter is more likely to be used where the primary objective is to make compensation costs more responsive to business results. Many types of plans have been developed, including Scanlon (costs), Rucker (costs), and Improshare (productivity).

Firms should have a family of measures—multiple, independent measures to quantify performance improvement, such as quality, delivery performance, customer satisfaction, safety, reduction of absenteeism, employee involvement, customer retention, speed of turnaround time, etc.

An alternative approach is based on goal achievement. Also known as goal sharing, it is simpler to construct and to communicate. It may be based on productivity and cost issues, with the focus on quality, customer satisfaction, and safety. Plans are tied to the achievement of preexisting organizational goals. Some plans lack credibility, particularly when goals are set unrealistically high. One way to enhance credibility is to involve the employees. Also, practitioners should try to avoid often-complex arithmetic.

Probably the only realistic way to measure customer satisfaction directly is through a customer survey. Other approaches have tried to measure it using customer returns, on-time delivery, and customer complaints.

There are two implementation approaches for determining employee shares, the variable share and the modifier. With the variable share approach, the gain-sharing pool is determined in the normal fashion, such as by aggregating the gains according to a cost formula or a family of measures. The individual employee share of the gains is not predetermined but is rather a function of some consumer satisfaction indicator. The employee share might be based on rejects in parts-per-million. The share might be a maximum of 60 percent. The message is: We will share cost savings with you, but not at the expense of customer satisfaction.

The second alternative, the modifier, also starts with a gain-sharing pool. Here, the employee share is a fixed percentage of the pool. The customer satisfaction measure, however, is used to modify, or adjust, the size of the pool, either before or after the employee share calculation. The pool is based on the aggregate gains realized through improvements in productivity, scrap, manufacturing supplies, and safety. Modifiers are delivery performance and customer complaints. The number of customer complaints can increase the pool by up to 4 percent or reduce it by up to 3 percent. Delivery perform-

ance, as measured by the percentage of on-time deliveries, can increase or decrease the pool by up to 5 percent.

The obvious (and traditional) way to tie pay to profitability is through a profit sharing plan. While cash profit sharing does effectively provide for variable compensation and may represent the final step in a company's variable pay evolution, it probably does little to change employee behaviors.

How to gain the organizational benefits of gain-sharing while ensuring that payouts reflect, at least to some degree, the profitability of the business? Three approaches are to use a profitability gate, a variable share, or a financially funded family of measures. The profitability gate requires that a certain level of profitability be achieved in order for a gain-sharing payout to be made. It may simply be that the business is profitable, but the gate's all-or-nothing nature can cause some undesirable outcomes. A lower risk alternative is the variable share. It ties the employee share of the gain-sharing pool to another variable, such as customer satisfaction. All are intended to moderate the gain-sharing payout when profitability is inadequate. In a financially funded family of measures, the pool of money available for distribution to employees is partially a function of profitability. Payout is also contingent upon achieving other goals. Half of the pool is paid on the basis of profitability. Full distribution is contingent upon achieving six organizational goals, such as the following:

- ☐ Productivity: 10 percent
- ☐ Scrap: 10 percent
- ☐ Rework: 10 percent
- ☐ Safety: 10 percent
- ☐ Customer rejects: 5 percent
- ☐ Attendance: 5 percent.

Maximum payout from profit sharing will be realized only if employees contribute to profitability gains by improving performance measured by those variables over which they have some control.

A variation on the financially funded approach involves the use of cost reduction, rather than profitability, as the funding mechanism. When costs fall below a baseline ratio, 50 percent of the cost savings form a pool. Only 30 percent of the pool is distributed without further condition, however. An additional 30 percent is paid out if a customer service goal is achieved. Payout of the remaining 40 percent of the pool is contingent upon achieving one to three additional goals established at each location by a management/employee team.

A deficit reserve involves withholding a portion of the employees' share of the gain-sharing pool. If, in subsequent periods, deficits in the gain-sharing program are incurred, the employees' share of the deficit is charged against the reserve account. Whatever funds remain in the pool at year-end are paid out to employees. This approach is not particularly effective if losses are frequent or substantial. Employees often view the withholding of part of their bonuses as unfair.

Creative alternatives include the following:

- Rolling payout—gains (or losses) from two or more periods are averaged.
- Loss recovery method—employees' payouts are reduced (or eliminated) for periods following a gain-sharing deficit.
- Year-to-date payout—quantifies the appropriate employee payout for the year-to-date period, then subtracts the amounts that have been paid in previous periods (effectiveness is lessened when deficits occur later in the year).

One predominant and traditional method of distribution is to divide the available funds by the payroll cost (e.g., each employee would receive a bonus equal to 5 percent of gross pay). Another is to divide the pool by the number of participating employees (e.g., each participant would receive \$200). Employee design teams and plan participants usually prefer the latter method of distribution. However, the Fair Labor Standards Act (FLSA) requires retroactive adjustments to overtime pay when that method is used. In brief, FLSA states that bonuses must be included as part of the nonexempt employee's compensation when calculating the 50 percent overtime premium. The law allows only certain limited exceptions such as discretionary bonuses and profit sharing bonuses—bonuses that are paid as a percent of the employee's total gross compensation. It is for this reason that the percent-of-income distribution method is the most widely used approach.

Creative alternatives to avoid these problems have been developed. One simple approach is to cap the payout for FLSA-exempt employees. The typical rule is that exempt employee bonuses cannot exceed the highest bonus earned by a nonexempt employee. This has limited effectiveness if some have high overtime pay. Another way is to distribute bonuses on the basis of hours worked or hours paid. Overtime hours should receive 1 1/2 hours credit. Another approach is to use a segmented pool. While the law exempts percent-of-income payouts from the overtime rule, it does not require that all employees receive the same percentage. The lower earners would thus receive a higher percentage bonus. The segmented pool cannot be carried to its logical extreme: segmenting the pool by individual.

## Other Design Innovations

The sharing arrangement may be adjusted. The traditional approach is to share the total gains realized using a single ratio, such as 50/50, 60/40, or 75/25. A nontraditional model might be based on value added, 30 percent; quality complaints, 50 percent; safety, 100 percent. It is not uncommon today, for example, to find multiple criteria for establishing baselines for different measures in the formula. One idea was to have it based on the average performance level achieved over the prior 2 years; any improvement over this 2-year average would be shared. After analyzing the past performance for each measure, however, it became apparent that this decision would not make business sense in all cases. So using only one year may be better. Or, the use of history may be abandoned altogether, and an improvement target can be established as the baseline. The goal is to establish a variable pay plan that makes sense.

The payout frequency may be semiannual, may be based on seasonal conditions, or may be annual. A few companies have adopted a variable frequency—for instance, payout will occur at the end of any month in which the pool contains at least \$50,000. This ensures that bonus checks are always substantial, thus positively reinforcing desired behavior.

Variable pay and gain-sharing programs are slowly but surely becoming mainstream elements of corporate compensation systems. [Belcher]

## TQM REWARDS

Stephen Knouse, author of *The Reward and Recognition Process in Total Quality Management*, notes that Deming was against any type of pay system that promotes the individual over the organization. [22]

Gain-sharing is generally more focused than profit sharing. It focuses on producing cost efficiencies and cost savings for quality improvements, rather than emphasizing any means that would produce a profit.

Some firms have a system of pay based on skill acquisition. For example, one firm allowed production teams to develop their own skill-based pay system under which team members could move through five pay levels on the basis of peer evaluations. Skill acquisition was anchored to meeting quality standards set by the team's customers.

Team pay is used in several methods. [24]. One is contribution increases. TQM teams and supervisors rate individuals on their contributions to the team effort. In at least one company, everyone in the group receives the same raise. Another approach is group variable pay. Other companies are experimenting with pay raises given for meeting or exceeding goals on collaborative performance. They may take the form of a bonus.

Some TQM goals being used are retention of customers, external customer satisfaction, internal customer satisfaction, and product and service reliability.

Criteria for effective TQM pay systems include effective communications, employee involvement, a win-win pay philosophy, process improvement, and the employees' stake in the organization. [26]

#### Summary of Motivational Principles for TQM [49]

Motivation in organizations must be managed if it is to be effective. Like any other organization, the TQM organization must manage the motivation of individual employees as well as that of quality teams. Some motivation principles related to TQM are highlighted here:

- ☐ Consistency in the organizational reward process increases the perception that success leads to rewards.
- ☐ Rewards must be valued by employees and teams.
- ☐ TQM training increases expectancy of TQM task success and skill variety.
- ☐ Empowerment increases expectancy of TQM task success and autonomy.
- ☐ Team effort increases expectancy of success.
- ☐ Team input into creating the reward system increases the value of rewards.
- ☐ Employee participation improves quality performance.
- ☐ Organizational TQM goals drive individual and team goals.
- ☐ A climate of trust and support enhances quality performance.
- ☐ Challenging goals enhance pride in performance.
- ☐ Team goals enhance teamwork toward quality improvements.
- ☐ Feedback improves quality performance.
- ☐ Reward and recognition enhance task significance and feedback.
- ☐ Presenting TQM efforts to others enhances task significance.
- ☐ Customer contact enhances skill variety and feedback.

Knouse cites a number of organizational examples of the reward and recognition process.

Lou Ana Foods has a year-end bonus for all based on profitability. In addition, the company gives the Nathan Frank Award (\$1,000) to the employee who best exemplifies total quality. During National Quality Month, the firm has a Total Quality Fest with railroad motif awards: Crewman's Award conferred on a peer by fellow employees, Brakeman's Award for a team or individual for best waste reduction, and Chairman's Award for overall outstanding team. The firm also has a suggestion program for teams—with a \$5 cash incentive for each team member, for each suggestion implemented—plus a quarterly program with an additional bonus and prizes (gifts and tickets). In a recent year, Lou Ana received 47.7 suggestions per employee—96 percent of those suggestions were implemented. [53]

Motorola has a Total Customer Satisfaction Team Competition (Quality Olympics) with gold, silver, and bronze medals. In 1993, 4,400 teams competed for 24 slots in the finals.

At Storage Technology Corporation, individuals can win the Outstanding Contribution Award, Technical Excellence Award, and Chairman's Quality Award. Teams can win the Outstanding Performance Award. Awards are supplemented by gifts, certificates, letters of commendation, dinners, and trips for off-site career enhancement.

Stuller Settings has a program called Ideas Pay. A suggestion committee evaluates each idea, and awards start at \$10 (one employee received \$1,500). About 25 percent are implemented by management.

Florida Power and Light had small monetary rewards and banquets—employees resented them as being too small. They preferred to see their suggestions in action, so the organization started an expo fair to demonstrate improvement efforts to other employees and the community.

IBM Marketing has a three-step cash award program: the cash award, a surprise gift sent to the employee's home, and an experience to remember the event (show tickets or dinner). The organization also has a peer-to-peer award. An employee or customer nominates a peer. The award recommender then receives \$20 to buy a gift for the awardee. IBM also has a market-driven quality award. A team nominates another team on the basis of teamwork and use of quality tools and processes.

The City of Phoenix awards 10 percent of the savings from suggestions, up to \$2,500. Suggestions having intangible results can receive awards of \$25 to \$500. There is the City Manager's Excellence Award, which includes breakfast, is televised, and features a picture of the awardee placed in the municipal



building. Also, certificates, plaques, and pins are awarded. Awards are determined by the award selection committee.

At BPH Steel (Australia), employees gain points for quality team participation and for discovering opportunities for improvement (identifying a problem or a means of improving a process). The points can then be traded in for restaurant dinners.

Knouse finds that lessons-learned include the following:

- Create an environment that allows all to benefit.
- Ensure that rewards are not concentrated on a few.
- Continually change the focus of some awards. [117]

## REFERENCES

- \_\_\_\_\_. DCA. News Release 49-96, Defense Commissary Agency, 11 September 1996, <http://www.npr.gov>
- \_\_\_\_\_. DVA. Medical Center Memorandum 05-2, Department of Veterans Affairs, Philadelphia, March 1995.
- USA Today*. "Employees Play for Pay," Money section, 15 October 1996, p. 01B.
- Washington Post*, 119th year, No. 352, 21 November 1996.
- WSJ. "Work Week, A Special News Report About Life On the Job—and Trends Taking Shape There," *Wall Street Journal*, 17 September 1996, p. A1.
- WSJ. *Wall Street Journal*, 29 October 1996, "The Checkoff," p. A1.
- WSJ. *Wall Street Journal*, 13 November 1996, p. B1.
- WSJ. "Business Bulletin," *Wall Street Journal*, 25 July 1996, p. A1.
- John G. Belcher, Jr., "Gain-sharing and variable pay: The state of the art," *Compensation and Benefits Review*, v 26 n 3, May/June 1994, pp. 50-60.
- Robert G. Eccles, "The Performance Measurement Manifesto," *Harvard Business Review*, January-February 1991, pp. 131-137.
- Tom Ehrenfeld, "The Case of the Unpopular Pay Plan," *Harvard Business Review*, January-February 1992, pp. 14-23.

- Alan Farnham, "Peter Drucker, With Fleas," *Fortune*, 25 November, 1996, pp. 169-170.
- Kerry Hannon, "Variable-pay programs: Where the real raises are," *Working Woman*, v 19 n 3, March 1994, pp. 48-51, 72, 96.
- Robert Kelley and Janet Caplan, "How Bell Labs Creates Star Performers," *Harvard Business Review*, July-August 1993, pp. 128-139.
- Stephen B. Knouse, *The Reward and Recognition Process in Total Quality Management*, ASQC Quality Press, Milwaukee, 1995.
- Maura McEnaney, "When a Dance Rewards What's Done Well at the Desk," WORKPLACE, your Money, *Washington Post*, n 352, 29 September 1996, p. H4.
- Carla O'Dell, "Team Play, Team Pay—New Ways of Keeping Score," *Across the Board*, v 26 n 11, November 1989, pp. 38-45.
- Steven Pearlstein, Trendlines *Incentives and Performance* "The Quiet Revolution: Linking Pay to the Bottom Line," *Washington Post*, n 352, 21 November 1996, pp. D1, D8.
- Frederick F. Reichheld, "Loyalty-Based Management," *Harvard Business Review*, March-April 1993, pp. 64-73.
- Eric D. Zitaner, "Variable Pay Programs: Tracking Their Direction," *Compensation and Benefits Review*, v 24 n 6, November/December 1992, pp. 8-16.